BANKA PËR BIZNES SH.A.

Independent Auditor’s Report and Financial Statements for the year ended 31 December 2023

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Independent Auditor's Report

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To the Shareholders of

Banka për Biznes Sh.a.

Opinion

We have audited the financial statements of Banka për Biznes Sh.a. ("the Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information in the Annual Report

Management is responsible for the other information presented in the annual report as of and for the year ended 31 December 2023. The other information comprises the information included in the Annual report but does not include the financial statements and our Independent Auditor's report on them.

Our opinion on financial statements does not include other information and, except to the extent otherwise explicitly stated in our report, we do not express any kind of assurance conclusion with on them.

In relation with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. In this sense, we do not have anything to report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance of Banka për Biznes Sh.a. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

GRANT THORNTON L.L.C. KOSOVO

Suzana Stavrikj
Statutory Auditor

Grant Thornton LLC
Prishtina,
22 March 2024

In thousands of EUR	**Notes**	**2023**	**2022**
Interest income at effective interest rate	5	22,659	19,182
Interest expense	5	(3,563)	(2,389)
Net interest income		**19,096**	**16,793**
Fee and commission income	6	5,190	4,716
Fee and commission expense	6	(2,089)	(2,077)
Net fee and commission income		**3,101**	**2,639**
Recoveries of loans previously written off		671	1,022
Net gain on financial assets at fair value through OCI	13	37	691
Total operating income		**22,905**	**21,145**
Other income	7	417	581
Credit loss expense on loans and advances to customers	14	(998)	(1,151)
Credit loss expense on financial assets other than loans and advances to customers	10-13	(87)	(27)
Repossessed assets impairment	17.1	(172)	(597)
Gain/Loss allowance for financial guarantees and credit commitments	23	5	21
Other operating expenses	8	(11,621)	(10,720)
Profit before tax		**10,449**	**9,252**
Income tax expense	**9**	**(791)**	**(719)**
Net profit for the year		**9,658**	**8,533**
Other comprehensive income			
Items that will be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive income	13.1	(1,031)	(938)
Total comprehensive income for the year		**8,627**	**7,595**

The notes from 1 to 28 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Financial Position
As at 31 December 2023

In thousands of EUR	Notes	2023	2022
Assets			
Cash on hand and at banks	10	27,031	23,097
Balances with Central Bank of Kosovo	11	54,239	51,884
Placements and balances with banks	12	10,710	6,325
Financial assets at fair value through OCI	13	61,184	54,925
Loans and advances to customers	14	325,128	272,189
Intangible assets	15	1,144	855
Property and equipment	16	2,755	2,472
Right of use Assets	22	2,822	2,580
Deferred tax asset	9	124	47
Other assets	17	614	714
Total assets		**485,751**	**415,088**
Liabilities			
Due to customers	18	416,652	352,305
Due to banks	19	76	1,169
Subordinated debt	20	502	502
Borrowings	21	7,261	4,873
Lease liability	22	2,898	2,665
Provisions	23	276	330
Other liabilities	23	4,319	5,545
Total liabilities		**431,984**	**367,388**
Equity			
Share capital	24	11,247	11,247
Other capital reserve		769	769
Revaluation reserve		96	96
Revaluation reserve for financial assets at fair value through OCI	13.1	(1,450)	(419)
Retained earnings		43,105	36,007
Total equity		**53,767**	**47,700**
Total liabilities and equity		**485,751**	**415,088**

These financial statements were approved by the management of the Bank on 22 March 2024 and signed on its behalf by:

Mimoza Godanci - Aliu
Chief Executive Officer

Gresa Godeni
Chief Financial Officer

The notes from 1 to 28 are an integral part of these financial statements

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In thousands of EUR	Share capital	Other capital reserve	Revaluation reserve	Revaluation reserve for financial assets at FVOCI	Retained earnings	Total
At January 1, 2022	**11,247**	**769**	**96**	**519**	**29,837**	**42,468**
Net profit for the year	-	-	-	-	8,533	8,533
Net change in fair value and ECL of financial instrument at FVOCI (Note 13.1)	-	-	-	(938)	-	(938)
Total comprehensive income for the year	**-**	**-**	**-**	**(938)**	**8,533**	**7,595**
Dividend paid	**-**	**-**	**-**	-	(2,363)	**(2,363)**
Balance at December 31, 2022	**11,247**	**769**	**96**	**(419)**	**36,007**	**47,700**
At January 1, 2023	**11,247**	**769**	**96**	**(419)**	**36,007**	**47,700**
Net profit for the year	-	-	-	-	9,658	9,658
Net change in fair value and ECL of financial instrument at FVOCI (Note 13.1)	-	-	-	(1,031)	-	(1,031)
Total comprehensive income for the year	**-**	**-**	**-**	**(1,031)**	**9,658**	**8,627**
Dividend paid	**-**	**-**	**-**	-	(2,560)	**(2,560)**
Balance at December 31, 2023	**11,247**	**769**	**96**	**(1,450)**	**43,105**	**53,767**

The notes from 1 to 28 are an integral part of these financial statements

In thousands of EUR	**Note**	**2023**	**2022**
Cash flows from operating activities			
Profit for the year before tax		10,449	9,252
Adjustment for:			
Amortization	15	548	461
Depreciation	16	823	877
ECL/Impairment losses from loans	14	998	1,151
ECL/Impairment losses from financial assets other than loans		87	27
Impairment provision for repossessed assets	17.1	172	597
Other provisions		(5)	(21)
Interest expense	5	3,563	2,389
Interest income	5	(22,659)	(19,182)
		(6,024)	**(4,448)**
Changes in:			
Placements and balances with banks	12	(4,415)	(1,094)
Loans and advances to customers	14	(52,883)	(40,276)
Restricted balances with the CBK	11	(3,255)	(5,617)
Other assets	17	100	(189)
Due to customers	19	63,254	31,328
Other liabilities and provisions	23	(1,047)	1,329
Cash (used in) operating activities		**(4,270)**	**(18,968)**
Interest received		22,490	19,018
Interest paid		(3,619)	(2,409)
Income tax paid	9	(848)	(980)
Income tax adjustment	9	(222)	245
Deferred tax asset	9	(77)	(40)
Net cash (used in) / generated from operating activities		**13,454**	**(3,134)**
Cash flows from investing activities			
Sale of Investments at FVOCI		10,128	36,930
Purchase of Investments at FVOCI		(17,538)	(45,193)
Purchase of intangible assets	15	(837)	(653)
Gain from sale of FVOCI	13	(37)	(691)
Purchase of property and equipment	16	(1,110)	(818)
Proceeds from sale of property and equipment	16	42	-
Net cash used in investing activities		**(9,352)**	**(10,426)**
Cash flows from financing activities			
Repayment of leased liabilities		(842)	(689)
Repayment of borrowings	21	(2,167)	(3,479)
Receipts from borrowings	21	4,500	1,500
Dividend distributed		(2,560)	(2,363)
Net cash generated from financing activities		**(1,069)**	**(5,033)**
Net increase in cash and cash equivalents		**3,033**	**(18,593)**
Cash and cash equivalents at beginning of the year	10	41,463	60,056
Cash and cash equivalents at the end of the year	10	**44,496**	**41,463**

The notes from 1 to 28 are an integral part of these financial statements

1. INTRODUCTION

Banka për Biznes Sh.a., previously known as Banka Private e Biznesit Sh.a., obtained a license for banking activities on 29 March 2001 and commenced operations on 24 April 2001.

Based on the decision of the Board of Directors dated 28 February 2005, and the final approval from the Central Bank of Kosovo ("CBK") dated 22 March 2005, the Bank changed its name to Banka per Biznes (the "Bank"). In 2006, the Bank was registered as a joint stock company ("Sh.a."). The Bank operates as a commercial and savings bank to all categories of customers within Kosovo through its network of 7 branches and 18 sub branches located throughout Kosovo (2022: 7 branches and 19 sub branches).

2. BASIS OF PREPARATION

2.1 Statement of compliance and basis of measurement

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), under the historical cost basis, except for the financial assets listed below, which are measured at fair value: Debt instruments held under the business model held to collect and sale.

The financial statements have been prepared as of and for the years ended 31 December 2023 and 2022 and using the going concern assumption. Where necessary and for comparative purposes, comparative figures have been reclassified to conform to the current year presentation.

The significant accounting policies are described in Note 3.

2.2 Significant events during the reporting year

In light of global macro-economic developments including ongoing geopolitical tensions, inflationary pressures, and rising interest rates, the Bank maintained its prudent risk approach, and closely monitored any possible deteriorating factor. The rise in inflation presents challenges concerning borrowers' affordability and loan performance. However, we diligently oversee the credit portfolio, adjusting credit underwriting standards and engaging with borrowers encountering potential difficulties. Through diversification of asset classes and active management of interest rate sensitivity, the Bank has effectively mitigated risks associated with inflation.

In anticipation of the potential impact of increasing interest rates, the Bank conducted stress testing, evaluating various scenarios and their implications on financial results. Concurrently, the Bank proactively managed liquidity to safeguard against adverse effects.

Emigration, particularly following visa liberalization, emerged as a significant concern for the upcoming period. Thus, monitoring capabilities are enhanced, instituting early warning indicators, and meticulously reviewing loan portfolio susceptible to emigration risks. These preemptive measures enable prompt identification of potential issues taking of necessary steps to mitigate associated risks.

Transitioning into 2024, the Bank maintains a cautiously optimistic outlook while remaining attuned to evolving macroeconomic dynamics. Moving forward, the Bank aims to continuously refine the risk management strategies, uphold a resilient capital position, and adapt to the evolving economic landscape to ensure the enduring sustainability and prosperity of the institution.

2. BASIS OF PREPARATION(CONTINUED)

2.3 New and revised standards and interpretations

2.3.1 Effective standards, amendments to standards and implementations in 2023

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2023:

- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (the Bank does not have any contracts that meet the definition of insurance contracts as set out in IFRS 17).
- Definition of Accounting Estimate (Amendments to IAS 8).
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

2.3.2 Standards, amendments to standards and interpretations issued but not yet effective

At the date of authorization of these financial statements, the following new standards and amendments to existing standards were in issue, but not yet effective:

- IAS 1 Presentation of Financial Statements, (Amendments regarding the classification of liabilities, amendment to defer the effective date of the January 2020 amendments, amendments regarding the classification of debt with covenants), effective from 1 January 2024.
- IFRS 7 Financial Instruments: Disclosures (Amendments regarding supplier finance arrangements), effective from 1 January 2024.
- IFRS 16 Leases, (Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions), effective from 1 January 2024.
- IAS 7 Statement of Cash Flows (Amendments regarding supplier finance arrangements), effective from 1 January 2024.
- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, effective from 1 January 2024.
- IFRS S2 Climate-related Disclosures, effective from 1 January 2024.

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Functional and presentation currency

These financial statements are presented in EUR, which is the Bank's functional currency. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

2.5 Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 3, 4 and 26.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense presented in the statement of profit or loss and Other Comprehensive Income (OCI) include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis; and
- interest on debt instruments measured at FVOCI calculated on an effective interest basis.

b) Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations,

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Fees and commissions (continued)

Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

c) Lease

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Bank’s incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early 2023

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Lease (continued)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets and lease liabilities in Note 22 and separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

d) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income. Current tax assets and liabilities are offset only if certain criteria are met.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense (continued)

(ii) Deferred tax (continued)

Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgments regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

e) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate exchange rate at that date.

The foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

f) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognizes loans and advances, deposits, debt securities, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price. See Note f) vii) for a description of the policy if the fair value of a financial instrument at initial recognition differs from the transaction price.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

As at 31 December 2023 and 2022, all Bank's financial assets are classified as measured at amortized cost or at FVOCI.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The Bank does not hold financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortized cost.

(ii) Derecognition of financial assets

Financial assets

The Bank de-recognizes a financial asset, such as a loan to a customer, when the terms are renegotiated to the extent that it essentially becomes a new loan, with the difference known as profit or loss from derecognition. In assessing whether a financial asset will be derecognized, the Bank considers both qualitative and quantitative criteria. One of the key criteria when assessing de-recognition of financial assets is exceeding the threshold of 10% of the gross value of the modified financial asset against the gross value of the original asset (before modification).

At the time of derecognition, the modified financial asset is recognized as a new asset initially measured at its fair value plus acceptable transaction costs. Recognition of new financial assets means the measurement of expected 12-month credit losses until the requirements for recognition of expected loss over a lifetime are met. There are cases when the modified financial asset is impaired at its initial recognition, where in such cases these assets are known as POCI. If the modification does not result in substantially different cash flows, where the Bank uses the 10% threshold, then the modification does not result in derecognition. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount that arises from the modification as profit or loss in the income statement. For the recognition of profit or loss, the Bank discounts the cash flows of the modified financial asset and the initial financial asset at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(iii) De-recognition (continued)

Financial assets (continued)

When assets are sold to a third party at a total rate of return on the transferred assets, the transaction is treated as a secured financing transaction, similar to the sale and repurchase transactions, because the Bank bears all or substantially all the risks and rewards of ownership of such assets.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on de-recognition.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Group of similar transactions such as in the Bank's trading activity.

(vi) Amortized cost measurement

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

(vii) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred in FV levels (note 4).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment

The model for recognizing expected credit losses is applicable to financial instruments that are measured at amortized cost or fair value through other comprehensive income. Those financial instruments are as follows:

- Loans and advances to banks;
- Loans and advances to customers;
- Securities;
- Receivables from financial and operating lease recognized by the lessor;
- Loan commitments;
- Financial guarantee contracts.

The amount of expected losses is updated at each reporting date to reflect changes in credit risk since the initial recognition of the particular financial instrument.

Depending on the credit risk assessment, the Bank groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: includes all financial assets for which credit risk has not increased since initial recognition as well as all financial assets of which credit risk has been improved and are reclassified from Stage 2. Bank, for these financial assets, recognizes 12 months expected credit losses.

Stage 2: includes all financial assets that have had a significant increase in credit risk since initial recognition as well as all financial assets of which credit risk has been improved and are reclassified from Stage 3. Bank, for these financial assets, recognizes lifetime expected credit losses.

Stage 3: includes all financial assets that have objective evidence of default at reporting date, referred also as impaired financial assets. Bank, for these financial assets, recognizes lifetime expected credit losses.

POCI: Originated or credit-impaired financial assets are those financial assets that have suffered credit impairment since their initial recognition. POCI assets are recorded at fair value at initial recognition and interest income are recognized based on credit-adjusted effective interest rate. Expected credit losses are recognized only to the extent that there is a subsequent change in expected credit losses. For financial assets for which the Bank has no reasonable expectation of recovering all or part of the outstanding amount, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of financial assets.

Definition of default

The definition of default is also critical in determining expected credit losses. The moment the borrower meets the default criteria, then it is classified in Stage 3.

In defining default, the Bank takes into account quantitative and qualitative criteria.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Quantitative Criteria

The borrower is in arrears for more than 90 days. The Bank estimates delays of over 90 days on an ongoing basis based on materiality thresholds set for the Business and Retail portfolio. The materiality threshold consists of an absolute and relative component:

- The absolute threshold component is equal to 100 Euros for Retail portfolio and 500 Euros for Business portfolio.
- The relative threshold component is equal to 1% of the total exposure amount in the balance sheet. This threshold is defined as the percentage of overdue credit liability in relation to the borrower's balance sheet exposure, excluding equity exposures.

In both Retail and Business portfolios, materiality thresholds are calculated at the borrower level.

Qualitative Criteria

The qualitative criteria used by the Bank which have an impact on the definition of default are:

- Occurrence of continuous delays in one instrument of the borrower, which has pooling effect on other instruments;
- Credit liability undergoes a difficult restructuring;
- The borrower is subject to restructuring conditions for the second time;
- The borrower is passed away;
- The borrower has gone bankrupt / is unable to pay;
- The borrower's continuing sources of income are no longer available to meet installment payments;
- Fraud cases, which cases have a significant impact on the solvency and performance of the borrower;
- The sale of the credit obligation was made with a material economic loss for the Bank;
- Enforcement / court proceedings have been initiated against the borrower with a potential impact on his ability to repay the debt;
- Acquisition of originated or credit-impaired financial assets (POCI).

Significant increase in credit risk

The Bank determines each exposure to a degree of credit risk based on internal criteria, using qualitative and quantitative factors that are indicators of default risk. Each exposure will be allocated to a degree of credit risk upon initial recognition based on information available about the borrower. Exposures will be subject to ongoing monitoring, which may result in credit exposure experiencing different degree of credit risk.

In determining whether the risk of default has increased significantly in a financial instrument since its initial recognition, the Bank considers reasonable and supportive information that is readily available at undue cost or effort. This includes qualitative and quantitative information and analysis based on the Bank's historical experience, proper credit rating and the inclusion of forward-looking information.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

The Bank uses different criteria to determine if there has been a significant increase in credit risk:

- The quantitative criteria set up to measure the credit quality deterioration of the particular financial asset since initial recognition.
- The rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.
- Qualitative criteria based on internal evaluations and judgments which are sufficient to determine that a financial asset has met the criterion for the recognition of a loss allowance at an amount equal to lifetime expected credit losses.

At the moment when the Bank estimates that a financial asset has had a significant increase in credit risk, then the lifetime expected credit losses are recognized and the asset is classified in Stage 2.

Quantitative Criteria

The quantitative criteria are applied and measured individually in each financial instrument. For the use of quantitative criteria, the Bank does not group credit exposures, which means that the measurement of significant increase in credit risk is not performed on a collective basis. Bank measures the credit quality by assigned rating grades and thus the thresholds for significant increase in credit risk are stated in terms of those grades. The significant increase in credit risk is performed by assessing changes in probability of default. There are set specific thresholds, where Bank uses relative threshold to determine the SICR.

Qualitative Criteria

Bank has set the qualitative criteria to measure the significant increase in credit risk either on individually basis or collective basis.

In general, the qualitative criteria used by the Bank to determine the significant increase in credit risk include:

- Changes in the borrower's credit risk management approach in relation to the financial instrument;
- Changes in the terms of the contract;
- Significant changes in external credit market risk indicators for a particular financial instrument or similar financial instruments.

<u>Internal Criteria</u>

To determine the significant increase in credit risk, the Bank includes internal criteria, which criteria may vary depending on the Bank's portfolio, namely Retail and Business portfolio.

Internal criteria for the Retail portfolio are considered as follows:

- Significant increase in credit risk in other financial instruments of the same borrower - pooling effect;
- Significant changes in the performance and expected behavior of the borrower;
- Significant changes in the initial terms of the borrower's contract.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

Internal criteria for the Business portfolio are considered as follows:

- Significant increase in credit risk in other financial instruments of the same borrower - the pooling effect;
- A significant change in the sales level of the borrower's activity;
- Planned regulatory changes leading to events such as financial deterioration of the business, bankruptcy;
- Significant current or expected negative change in the borrower's regulatory, economic or technological environment;
- Increased financial difficulties of the borrower affecting non-compliance with laws and regulations;
- Significant changes in the industry in which the borrower operates and which may have an effect on financial information.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is overdue.

Inputs and Measurement of Expected Credit Losses (ECL)

Expected credit loss is measured on the basis of a 12-month period or during lifetime, depending on whether there has been a significant increase in credit risk since the initial recognition or whether a financial asset is considered impaired.

The key inputs for measuring ECL are as follows:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

Probability of Default (PD)

PD is an assessment of the possibility of non-payment over a certain time horizon. It is estimated as a point in time.

The calculation is based on statistical evaluation models and evaluated using evaluation tools tailored to different categories of counterparties and exposures.

These statistical models are based on market data (where available) as well as internal data involving quantitative and qualitative factors. PDs are assessed taking into account contractual maturities of exposures and projected prepayment rates. The assessment is based on current conditions, adapted to take into account assessments of future conditions that will affect the PD. The PD analysis will include identifying and calibrating the relationships between changes in default rates and changes in key macroeconomic factors.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Grouping of financial instruments with similar characteristics

The Bank, based on the requirements of the standard, groups the financial instruments based on similar credit risk characteristics in order to assess the risk of default and its related changes, when reasonable supporting information for a particular instrument is not available without undue costs and effort, at the reporting date. Examples of common credit risk characteristics may include, but are not limited to:

a. the type of instrument;
b. credit risk assessment;
c. type of collateral;
d. date of initial recognition;
e. remaining maturity;
f. industry;
g. the geographical location of the borrower; and
h. the value of the collateral in relation to the financial asset if the collateral has an impact on the likelihood of default (for example, non-recourse loans in some jurisdictions or the loan / collateral ratio).

The collection of financial instruments to assess whether there is a change in credit risk on a collective basis may change over time, as new information on individual financial instruments or groups of instruments may become available.

Grouping of portfolio with similar credit risk profile

The Bank, for the purposes of modeling the PD, for separate credit exposures classifies them into segments with the same or similar risk profile - referred to as homogeneous groups.

The groupings used by the Bank are as follows:

- Corporate & SME
- Micro
- Agro
- Mortgages
- Veterans & Invalids
- Consumer
- Credit Cards.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Loss Given Default (LGD)

The loss given default represents the sum of the potential loss on an outstanding exposure. The Bank estimates the LGD parameter based on the history of recovery rates of defaulted parties. The LGD model also considers the structure as well as the costs of recovery from collateral which is an integral part of the financial asset. These are calculated on discounted cash flows using the effective interest rate as the discount factor.

Collateral recoveries for modelling LGD

The Bank, for the purposes of assessing possible recoveries from different credit agreements, also considers collateral as a possible recovery of the LGD. Collateral does not necessarily mean that a covered financial instrument does not have a significant increase in credit risk, but their impact is observed in the percentage of LGD. The collateral that the Bank considers available for recovery is as follows:

- Cash coverage;
- Coverage with the Kosovo Credit Guarantee Fund (KCGF);
- Real estate coverage.

For each type of coverage there is a certain level that helps mitigate credit risk, thereby reducing LGD.

For financial instruments covered by real estate, the Bank has based its historical sales experience. They will be calculated on the basis of discounted cash flow using the effective interest rate as the discount factor.

Exposure at default (EAD)

The EAD is an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including principal and interest repayments, and expected withdrawals for committed contracts.

The Bank's EAD modeling approach reflects the expected changes in the residual value over the life of the credit exposure, which are permitted by current contractual terms, such as amortization profiles, early repayments, changes in the use of commitments non-withdrawals and actions taken to mitigate credit risk prior to default. The Bank uses EAD models that best reflect the characteristics of its loan portfolio.

CCF approximation

The Bank performs annual analyzes to measure the credit conversion factor, observing a 5-year period for evaluating commitments by measuring the average utilization ratio of commitments at the date of default. The analyzes have resulted that this ratio is very close to the value 100%, therefore the CCF is set 100% for all segments in all periods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Discounting factor

In general, for a non-POCI balance sheet exposure, the discount factor for calculating expected credit losses is the effective interest rate or an approximation thereof.

As for POCI exposures, an adjusted effective interest rate is used.

Measurement of Expected Credit Losses (ECL)

The measurement of ECL reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed as a significant or non-significant increase in credit risk.

For new financial instruments, impairment allowance is measured at an amount equal to the expected 12-month credit losses. When the risk of default of the financial instrument increases significantly compared to the risk measured in its origination, the Bank will measure lifetime expected credit losses.

So, as specified above, the Bank groups its financial instruments as follows:

Stage 1: includes newly created financial instruments that are not impaired as a result of default, as well as existing financial instruments for which credit risk has not increased significantly since initial recognition. The ECLs for these assets are measured on a 12-month basis considering:

- The probability that loans will default within 12 months after the reporting date (referred as “12 month PD”), and
- The loss that will occur during the lifetime of the loan in case of default (referred as loss given default or “LGD”).

Stage 2: includes loans that have had a significant increase in credit risk since initial recognition but that do not have objective evidence that default has occurred. IFRS 9 requires that ECLs for these loans be assessed on lifetime basis considering:

- the probability that exposures will default within their entire remaining life after the reporting date (referred as ‘cumulative lifetime PD’), and
- the ultimate loss suffered over the lifetime in case of default.

Stage 3: includes loans that have objective evidence of default at the reporting date (hence defaulted assets). IFRS 9 requires that lifetime ECLs is assessed based on the ultimate loss suffered.

POCI: includes instruments that are credit-impaired at the date of acquisition or origin (generally these instruments are purchased at a deep discount due to impairment). These instruments are initially recognized at fair value less compensation for impairment measured at the date of origin or acquisition. The ECL is then re-measured at each reporting date and changes are recognized in the income statement.

Collective assessment of ECL

The Bank generally measures and evaluates ECLs in groups, in cases where there is little or no specific information for borrowers. Collective assessment of ECL has different characteristics for each of the Stages.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Measurement of ECL for Stage 1

Stage 1 covers expected losses from default events expected up to 12 months after the balance sheet date. It does not cover losses on financial instruments that may result in non-payment after the 12-month period. The parameters included in the calculation of ECL have a 12-month horizon. However, all short-term financial instruments (with a maturity of less than 1 year) are treated in accordance with the lifetime expected credit loss approach.

Measurement of ECL for Stage 2

For Stage 2 financial instruments, ECL is estimated over the period in which the Bank is exposed to credit risk, ie over the life of the financial instrument. Lifetime credit losses are defined as the expected credit losses arising from all possible non-performing events over the life of a financial instrument.

The same equation is used to calculate the expected credit loss for Stage1 and Stage 2. The only difference between Stage 1 and Stage 2, except for the different time horizon, is that for Stage 2, the expected credit loss is deducted at the effective interest rate for all financial instruments, while in Stage 1, only the expected losses for financial instruments at maturity at 12 months are deducted by EIR.

Measurement of ECL for Stage 3

Default is no longer expected, but it has occurred for loans classified in Stage 3, therefore, the probability of default is equal to 1. Expected credit losses are estimated at the extent of irrecoverable losses after considering the expected payments from all strategies of recovery, reflected in the estimated LGDs for each month after default.

Individual assessment of ECL

The Bank assesses financial instruments individually after they default and are classified in Stage 3 and have an exposure above Eur 100,000.
To conduct the individual assessment, the Bank must identify and anticipate expected payments under all recovery strategies.
Estimated payments will be included in determining the losses to be discounted at the reporting date using the specific effective interest rate of the particular exposure.
Expected credit losses for individually assessed financial instruments are estimated as the difference between the gross carrying amount and the discounted payments.

Forward-looking information

Under IFRS 9, the Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank formulates a ‘base case’ view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from the Bank Risk Committee and economic experts and consideration of a variety of external actual and forecast information.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Forward-looking information (continued)

This process involves developing three economic scenarios and considering the relative probabilities of each outcome. Scenarios used are:

- Baseline scenario
- Optimistic scenario
- Pessimistic scenario

External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organizations such as the World Bank and the International Monetary Fund, as well as the private sector including research organizations.

The base case represents a most-likely outcome and be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Bank also periodically carries out more extreme stress-testing to calibrate its determination of these other representative scenarios. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include Gross Domestic Product (GDP), unemployment level and inflation forecasts. Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analyzing historical data at least over the past 5 years.

Off balance sheet items

Financial guarantees and loan commitments

The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by an approximation to the risk-adjusted interest rate relevant to the exposure. The liabilities related to financial guarantee contracts are recognized within Provisions.
Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Such financial commitments are recorded in the statement of financial position if and when they become payable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Restructured and modified financial assets

The Bank sometimes makes modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan restructured when such modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before modifying the terms of the contract. It is the Bank's policy to monitor rescheduled loans to ensure that future payments continue to be possible. De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

Once an asset has been classified as restructured, it will remain restructured for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All its credit instruments should be considered as performing,
- The probation period of two years has passed from the date the forborne contract was considered performing,
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- The customer does not have any contracts that are more than 30 days past due.

Write-off of credit products

Financial instruments are written-off from the balance sheet at the moment when the Bank has no reasonable expectations for the recovery of those financial instruments (either in whole or in part).

At the time of write-off of the financial instruments, the Bank considers that the borrower does not have sufficient source of income that can generate sufficient cash flows to make contractual payments.

Bank performs the write-off of financial instruments based on requirements of credit risk management regulation also based on policy for write-off of credit products, where at the moment when financial instruments are classified as default (or non-performing) are taken into account also the criteria for coverage of loans with collateral:

a. if financial instruments are not covered by any type of collateral, then the repayment must be made within a maximum of 18 months,
b. if the coverage is with movable collateral, the repayment must be made within a maximum of 36 months,
c. if the coverage is with mortgage, then the repayment can be made within a maximum of 60 months, and
d. if the coverage is combined, where over 50% of the exposure is covered by the mortgage, then the repayment is made according to point c.

All financial instruments must be covered with provision by 100% before being written-off.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed in Note 13.

g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

h) Repurchase Agreements (REPOs)

The Bank engages in repurchase agreements (REPOs) as part of its liquidity management and financing activities. REPOs involve the sale of securities with an agreement to repurchase them at a predetermined price and date. The Bank accounts for REPOs as financing transactions and recognizes them on the balance sheet as either collateralized borrowings or collateralized financings, depending on the substance of the agreement.

Collateral received or pledged under REPO agreements is recognized at fair value and is subject to regular valuation adjustments. Any income or expense arising from changes in the fair value of collateral is recognized in the income statement.

When the Bank buys a financial asset and enters in agreement to repurchase the asset at a fixed price on a future date (repo), the arrangement is accounted as placement, and the underlying asset is recognized in the Bank's financial statements.

At the reporting date, the Bank evaluates the substance of its REPO agreements to determine their classification and presents them accordingly in the financial statements.

i) Deposits, borrowings and subordinated debt

Deposits, borrowings and subordinated debts are the Bank's main sources of debt funding.

Deposits, borrowings and subordinated debts are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Repossessed assets

Collateral held under loan agreement can only be possessed by the Bank in case of borrower's default and conduct of legal procedures in accordance with legislation of Kosovo, which enable the Bank to take full legal title and ownership. Only after the completion of these procedures, the Bank can sell or transfer the collateral. Repossessed assets are initially recognized using the bailiff set amount in the last auction and the Bank impairs 100% of the repossessed assets at the moment of recognition. Any gain or loss from the sale of these assets is recognized in the profit or loss.

In addition, the Bank recognizes repossessed collateral as an asset only when it has full legal title of the collateral and the fair value of collateral can be determined reliably. The Bank cannot sell, transfer or re-pledge the collateral if legal procedures for transfer of ownership as a result of default have not been completed. The Bank holds the possession of properties acquired through enforcement in the form of a mortgage, for a maximal period of five years. If, within five years, the asset has not been sold by the Bank, it is written off.

k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values over their estimated useful lives. Depreciation is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Property and equipment (continued)

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Buildings	20 years
Computer and related equipment	5 years
Vehicles	5 years
Furniture, fixtures and equipment	5 years

Leasehold improvements are depreciated using the straight-line basis over the shorter of the lease term and their useful lives. The estimated useful life of the leasehold improvements is 5 years.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

l) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss over the estimated useful life of the asset, from the date that it is available for use.

Software is amortized using the straight-line method over the estimated useful life of five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

m) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

n) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due. The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

p) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by an approximation to the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognized within other provisions.

Loan commitments are Bank commitments to provide credit under pre-specified terms and conditions. Such financial commitments are recorded in the statement of financial position if and when they become payable. Bank, in its financial instruments portfolio includes also the loan commitments which are defined to be revocable. For those financial instruments, although that the Bank has the ability to cancel the undrawn commitment, it recognizes expected credit losses. The Bank measures expected credit losses for those undrawn commitments over the period that the Bank is exposed to credit risk and which risk cannot be mitigated by credit risk management actions.

q) Dividends

Dividends on ordinary shares are recognized as liability in the period in which they are approved by the Bank's shareholders and by CBK. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period.

r) Equity reserves

The reserves recorded in equity (within OCI) on the Bank's statement of financial position include:

- Fair value reserve, which comprises changes in fair value and ECL of Financial assets at fair value through OCI investments;
- Other capital reserve, which comprises difference between accumulated losses in accordance with IFRS and CBK;
- Revaluation reserve, which comprises of revaluation on initial recognition of the building of the Bank.

4. USE OF ESTIMATES AND JUDGMENTS

Management selects and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 26).

a) Expected Credit Losses

Financial assets measured at amortized cost or FVOCI are assessed for impairment on a basis described in Note 3. (f). (viii). The Bank reviews its assumptions and judgments on a regular basis.

The Bank measures the expected credit losses of a financial instrument in a way that reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

b) Net realizable value of repossessed assets

The Bank has established a policy with respect to the fair values of repossessed assets which are being measured at the lower of cost and net realizable value, which is the estimated selling price of the properties less costs to sell. The estimated selling price is derived from fair value measurements that include the use of external, independent property valuers, having appropriate recognized statutory professional qualifications, which is subsequently reviewed from the Bank Management for significant unobservable inputs and any required write down adjustments.

The Bank generally impairs in full repossessed property if they remain unsold for periods longer than 5 years. The fair value measurements involved in determination of the net realizable value of the Bank's repossessed assets are categorized into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of repossessed assets, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Reference to the current market: The valuation model uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)	Market prices were modified to reflect the following: The level of market transactions when the market activity is low or the price for an identical property is difficult to obtain Specific condition of each property (construction, position etc.)

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Determining fair values

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3. (f). (vii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation.

d) Disclosure and estimation of fair value

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimation of the fair value is disclosed in note 4 d) below.

Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Financial instruments – fair value hierarchy

The following table sets out the fair values of financial instruments measured and not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. No items have fair value measurements in accordance to Level 1.

(Amounts in thousands of EUR, unless otherwise stated)

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

	2023			2022		
	Carrying value	Fair value Level 2	Fair value Level 3	Carrying value	Fair value Level 2	Fair value Level 3
Financial assets measured at fair value						
Financial investments at fair value through OCI	62,925	61,184	-	55,576	54,925	-
Financial assets not measured at fair value						
Cash on hand and at banks	81,270	-	81,270	74,981	-	74,981
Placements and balances with banks	10,710	-	10,710	6,325	-	6,325
Loans and advances to customers	325,128	-	325,128	272,189	-	272,189
Other financial assets	395	-	395	398	-	398
Financial liabilities not measured at fair value						
Due to customers	416,652	-	416,652	352,305	-	352,305
Due to banks	76	-	76	1,169	-	1,169
Subordinated debt	502	-	502	502	-	502
Borrowings	7,261	-	7,261	4,873	-	4,873
Other financial liabilities	4,319	-	4,319	5,544	-	5,544

Financial instruments – fair value hierarchy

Fair value for financial assets and liabilities above have been determined using Level 2 and Level 3 input described above.
Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Balances with banks

Due from other banks include inter-bank placements and accounts. As loans, advances and deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

Bonds

Bonds include bonds issued by the Government of Kosovo which are bought and classified as investments at fair value through OCI. Quoted prices in active markets were not available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs.

Loans and advances to customers

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

(Amounts in thousands of EUR, unless otherwise stated)

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

The Bank's loan portfolio has an estimated fair value approximately equal to its book value due either to their short-term nature or to underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Due to customers, borrowings and subordinated debt

The fair value of subordinated debt and Due to customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits and subordinated debt of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

5. INTEREST INCOME AND EXPENSES

Net interest income is composed as follows:

	2023	2022
Interest income at effective interest rate		
Loans and advances to customers	20,836	18,021
Placements and balances with banks	274	92
Financial investments	1,549	1,069
	22,659	**19,182**
Interest expense		
Due to customers	(3,330)	(2,252)
Subordinated debt	(37)	(37)
Borrowings	(196)	(100)
	(3,563)	**(2,389)**
Net interest income	**19,096**	**16,793**

6. FEE AND COMMISSION INCOME AND EXPENSES

	2023	2022
Fee and commission income		
Payment transfers and transactions	2,156	2,398
Account maintenance fees	1,945	1,393
Other fees and commissions	1,089	925
Total fee and commission income	**5,190**	**4,716**
Fee and commission expense		
Fees and commissions on bank accounts	(1,203)	(1,214)
Fees and commissions on social aid distribution	(6)	(22)
Other fees and commissions	(880)	(841)
Total fee and commission expense	**(2,089)**	**(2,077)**
Net fee and commission income	**3,101**	**2,639**

(Amounts in thousands of EUR, unless otherwise stated)

7. OTHER INCOME

	2023	2022
Income from sale of repossessed assets	179	428
Other income for release of provisions (note 25.1)	55	79
Other income	183	74
Total	**417**	**581**

8. OTHER OPERATING EXPENSES

	2023	2022
Personnel expenses (see below)	6,094	5,616
Depreciation and amortization	1,372	1,339
Lease depreciation and other lease expenses	924	843
Insurance and security	901	837
Advertising and marketing expenses	517	323
Communications	326	262
Utilities and fuel	231	239
Repairs and maintenance	151	145
Legal expense	145	199
Card expenses outsource	69	54
Consultancy	149	175
Board member remuneration	73	107
Office materials	75	52
Cleaning expenses	80	64
Printing expense	40	43
Travel	31	31
Provisions for legal cases (note 25.1)	-	-
Other expenses	443	391
Total	**11,621**	**10,720**

The number of employees as at 31 December 2023 is 413 (31 December 2022: 423).

Personnel expenses are details as follows:

	2023	2022
Wages and salaries	4,935	4,561
Pension contribution	247	232
Accrued bonuses	861	786
Other compensations	51	37
Total	**6,094**	**5,616**

(Amounts in thousands of EUR, unless otherwise stated)

9. INCOME TAX EXPENSE

Income tax expense comprises of:

	2023	2022
Current income tax expense	868	770
Deferred tax	(77)	(51)
Total tax expense	**791**	**719**

The income tax charge differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Bank as follows:

	Effective tax rate	2023	Effective tax rate	2022
Profit before tax		**10,449**		**9,251**
Tax calculated	10%	1,045	10%	925
Adjustment due to difference on provision for loans based on IFRS 9	0.23%	24	0.35%	32
Written off loans tax effect	-	-	-	-
Tax effect of non-deductible expenses	0.66%	69	0.19%	18
Tax effect of the accrued interest on term deposits	0.54%	56	0.38%	35
Interest income from FVOCI investment taxed at source	(1.47%)	(154)	(1.16%)	(107)
Sponsorship	(1.65%)	(172)	(1.44%)	(133)
Income tax	**8.31%**	**868**	**8.32%**	**770**

Deferred tax is calculated based on the enacted tax rate of 10%. Deferred tax assets are recognized only to the extent that realization of the related tax benefit is probable.

	2023	2022
Liability at the beginning	(83)	338
Effect of tax adjustments	213	(211)
Liability after adoption	**130**	**127**
Additions during the year	868	770
Payments during the year	(765)	(980)
(Assets)/Liability at the year end	**233**	**(83)**

The carry forward period for any tax losses in accordance with the Kosovo Tax Law is four years. Income tax is assessed at the rate of 10% (2022: 10%) of taxable income.

The movements in deferred tax assets and liabilities are presented as follows:

	Movements in deferred tax
Deferred tax liability as at 31 December 2021	**(4)**
Deferred depreciation	16
Deferred interest expenses	35
Movement of deferred tax	**51**
Deferred tax asset/liability as at 31 December 2022	**47**
Total as at 01.January 2023	**47**
Deferred depreciation	21
Deferred interest expenses	43
Deferred salaries expenses	13
Movement of deferred tax 2023	**77**
Deferred tax asset as at 31 December 2023	**124**

(Amounts in thousands of EUR, unless otherwise stated)

10. CASH ON HAND AND AT BANKS

	2023	2022
Cash on hand	16,471	16,653
Cash at banks	10,561	6,446
Total	**27,032**	**23,099**
Allowance for ECL	(1)	(2)
Cash on hand and at banks after allowance for ECL	**27,031**	**23,097**

Cash and cash equivalents consist of the following:

	2023	2022
Cash on hand and at banks	27,032	23,099
Current accounts (Note 11)	17,464	18,364
Total	**44,496**	**41,463**

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all balance are performing.

	2023				2022			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	-	-	-	-	-
Strong	5,845	-	-	5,845	469	-	-	469
Good	21,187	-	-	21,187	22,630	-	-	22,630
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	**27,032**	**-**	**-**	**27,032**	**23,099**	**-**	**-**	**23,099**

(Amounts in thousands of EUR, unless otherwise stated)

10. CASH ON HAND AND AT BANKS (CONTINUED)

An analysis of changes in the corresponding of Gross carrying amount and ECLs is, as follow:

	Gross carrying amount		ECL		Carrying Amount
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2022	**26,429**	**-**	**(2)**	**-**	**26,427**
All transfers	-	-	-	-	
Derecognitions other than write-offs	(3,330)	-	-	-	**(3,330)**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	-	-	-	-	**-**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**(3,330)**	**-**	**-**	**-**	**(3,330)**
As at 31 December 2022	**23,099**	**-**	**(2)**	**-**	**23,097**
All transfers	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	3,933		1		**3,934**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**3,933**	**-**	**(1)**	**-**	**3,934**
As at 31 December 2023	**27,032**	**-**	**(1)**	**-**	**27,031**

An analysis of changes in the ECLs for cash on hand and at banks for 2023 is, as follow:

Movement of ECL for cash on hand and at banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2023	**2**	**-**	**-**	**2**
Transfers:				
Derecognitions other than write-offs	(1)	-	-	**(1)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2023	**1**	**-**	**-**	**1**

(Amounts in thousands of EUR, unless otherwise stated)

10. CASH ON HAND AND AT BANKS (CONTINUED)

An analysis of changes in the ECLs for cash on hand and at banks for 2022 is, as follow:

Movement of ECL for cash on hand and at banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2022	**2**	**-**	**-**	**2**
Transfers:				
Derecognitions other than write-offs	-	-	-	**-**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**2**	**-**	**-**	**2**

11. BALANCES WITH CENTRAL BANK OF KOSOVO

	2023	**2022**
Statutory reserves	36,780	33,525
Current accounts	17,464	18,364
Total	**54,244**	**51,889**
Allowance for ECL/Impairment losses	(5)	(5)
Balances with Central Bank of Kosovo after allowance for ECL	**54,239**	**51,884**

In accordance with the CBK requirements relating to the deposits reserve for liquidity purposes, the Bank should maintain a minimum of 10% of customer deposits with maturities up to one year, as statutory reserves. The statutory reserves represent highly liquid instruments, including cash on hand, accounts at the CBK or at other banks in Kosovo, and the amounts held at the CBK should not be less than half of the total statutory reserves. The assets with which the Bank may satisfy its liquidity requirement are EUR deposits with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base.

(Amounts in thousands of EUR, unless otherwise stated)

11. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2023				2022			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	54,244	-	-	**54,244**	51,889	-	-	**51,889**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**54,244**	**-**	**-**	**54,244**	**51,889**	**-**	**-**	**51,889**

An analysis of changes in the corresponding of gross carrying amount and ECLs is, as follow:

	Gross carrying amount		ECL		Carrying amount
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2022	**61,535**	**-**	**(5)**	**-**	**61,530**
All transfers:					
Derecognitions other than write-offs	(9,646)	-	-	-	**(9,646)**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased					
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**(9,646)**	**-**	-	**-**	**(9,646)**
As at 31 December 2022	**51,889**	**-**	**(5)**	**-**	**51,884**
All transfers:					
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	2,355				**2,355**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**2,355**	**-**	-	**-**	**2,355**
As at 31 December 2023	**54,244**	**-**	**(5)**	**-**	**54,239**

11. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)

An analysis of changes in the ECLs for balances with Central Bank of Kosovo for 2023 is, as follow:

Movement of ECL for balances with Central Bank of Kosovo	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL as at 1 January 2023	**5**	**-**	**-**	**5**
Transfers:				
Derecognitions other than write-offs		-	-	
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2023	**5**	**-**	**-**	**5**

An analysis of changes in the ECLs for balances with Central Bank of Kosovo for 2022 is, as follow:

Movement of ECL for balances with Central Bank of Kosovo	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL as at 1 January 2022	**5**	**-**	**-**	**5**
Transfers:				
Derecognitions other than write-offs		-	-	
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**5**	**-**	**-**	**5**

(Amounts in thousands of EUR, unless otherwise stated)

12. PLACEMENTS AND BALANCES WITH BANKS

	2023	2022
Term deposits		
Ziraat Bankasi	1,010	2,204
ISBank	4,001	
BKT	4,186	4,041
	9,197	**6,245**
Restricted accounts and Repo agreements:		
Raiffeisen Bank International	90	125
BKT (Repo Agreement)	1,498	-
	1,588	**125**
Total	**10,785**	**6,370**
Allowance for ECL/Impairment losses	(75)	(45)
Placements and balances with banks after allowance for ECL	**10,710**	**6,325**
Current	10,710	6,325
Non-current	-	-

Placements and balances with banks include restricted accounts for guarantees on behalf of customers.

Repo agreement with BKT in amount of EUR 1,489, with interest rate 3.75%.

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2023				2022			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	10,785	-	-	**10,785**	6,370	-	-	**6,370**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**10,785**	**-**	**-**	**10,785**	**6,370**	**-**	**-**	**6,370**

(Amounts in thousands of EUR, unless otherwise stated)

12. PLACEMENTS AND BALANCES WITH BANKS (CONTINUED)

An analysis of changes in the corresponding of Gross carrying amount and ECLs is, as follow:

	Gross carrying amount		ECL		Carrying amount
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2022	**5,276**	**-**	**(39)**	**-**	**5,237**
All transfers:	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	1,094	-	(6)	-	**1,088**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**1,094**	-	**(6)**	-	**1,088**
As at 31 December 2022	**6,370**	**-**	**(45)**	**-**	**6,325**
All transfers:	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	4,415	-	(30)	-	**4,385**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**4,415**	-	**(30)**	-	**4,385**
As at 31 December 2023	**10,785**	**-**	**(75)**	**-**	**10,710**

(Amounts in thousands of EUR, unless otherwise stated)

12. PLACEMENTS AND BALANCES WITH BANKS (CONTINUED)

An analysis of changes in the ECLs for balances with banks for 2023 is, as follow:

Movements of ECL for balances with banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2023	**45**	**-**	**-**	**45**
Transfers:				
Derecognitions other than write-offs		-	-	
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	30	-	-	**30**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**75**	**-**	**-**	**75**

An analysis of changes in the ECLs for balances with banks for 2022 is, as follow:

Movements of ECL for balances with banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2022	**39**	**-**	**-**	**39**
Transfers:				
Derecognitions other than write-offs		-	-	
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	6	-	-	**6**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**45**	**-**	**-**	**45**

(Amounts in thousands of EUR, unless otherwise stated)

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	2023	2022
International T Bills	4,996	-
Government Bonds	56,188	54,925
Total	**61,184**	**54,925**

During the year 2023 Bank has registered 2 trading of financial instruments. Financial instruments were traded with positive margins that have marked profit from trading. The trader involved was Central Bank of Kosovo. Gain was recognized through profit and loss in amount of EUR 37 thousand (2022: EUR 691 thousand).
During the years 2023 banks has invested in government Bonds in amount of EUR 7.9 Million.
Concentration of Bonds based on maturity is within two up to four years.

At the end of 2023, the Bank have started cooperation with the Raiffeisen Bank International for the possibility of investing in European bonds, namely the European Union and the Austrian T-Bill. The investments were short term for two weeks. The amount invested was EUR 8 million.

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2023				2022			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	61,184	-	-	**61,184**	54,925	-	-	**54,925**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**61,184**	-	-	**61,184**	**54,925**	-	-	**54,925**

(Amounts in thousands of EUR, unless otherwise stated)

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (CONTINUED)

An analysis of changes in the corresponding of gross carrying amount and ECLs is, as follow:

	Gross carrying amount		Carrying amount
	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	
As at 1 January 2022	**47,620**	-	**47,620**
All transfers			
Derecognitions other than write-offs	(39,394)	-	**(39,394)**
New financial assets originated or purchased	46,699	-	**46,699**
Write-offs	-	-	-
Net change during the year	**7,305**	-	**7,305**
As at 31 December 2022	**54,925**	-	**54,925**
All transfers			
Derecognitions other than write-offs	(9,174)	-	**(9,174)**
Repayments and change in cash flow	-	-	-
New financial assets originated or purchased	15,433	-	**15,433**
Write-offs	-	-	-
Net change during the year	**6,260**	-	**6,260**
As at 31 December 2023	**61,184**	-	**61,184**

An analysis of changes in the ECLs for financial assets at fair value through OCI for 2023 is, as follow:

Movement of ECL for financial assets at fair value through OCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2023	**233**	**-**	**-**	**233**
Transfers:				
Derecognitions other than write-offs	(6)	-	-	**(6)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	64	-	-	**64**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2023	**291**	**-**	**-**	**291**

An analysis of changes in the ECLs for financial assets at fair value through OCI for 2022 is, as follow:

Movement of ECL for financial assets at fair value through OCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2022	**211**	**-**	**-**	**211**
Transfers:				
Derecognitions other than write-offs	(70)	-	-	**(70)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	92	-	-	**92**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**233**	**-**	**-**	**233**

(Amounts in thousands of EUR, unless otherwise stated)

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (CONTINUED)

13.1 Revaluation reserve for FVOCI securities

	For the year ended 31-Dec-23	For the year ended 31-Dec-22
Gain (loss) on change of fair value FVOCI financial instruments	(1,740)	(651)
Credit/Debit to other comprehensive income	**(1,740)**	**(651)**

The movement in revaluation reserve is as follows:

	For the year ended 31-Dec-23	For the year ended 31-Dec-22
Market price as at January 1	**(651)**	**308**
Price change of financial instruments FVOCI (a)	(1,089)	(959)
Net as presented in other comprehensive income	**(1,089)**	**(959)**
Market price as of December 31 (A)	**(1,740)**	**(651)**
Allowance for ECL of securities at FVOCI at 01 January	232	211
Net presented in profit or loss (b)	58	21
Allowance for ECL of securities at FVOCI at December 31 (B)	**292**	**232**
Revaluation Reserve for FVOCI as at December 31 (A-B)	**(1,450)**	**(419)**
Change in Revaluation reserve for FVOCI securities during the year (a-b)	**(1,031)**	**(938)**

Change in fair value is presented as a net balance in statement of changes in equity.

During the year 2023 the price change of financial instruments FVOCI by EUR 1,089 consists of:

	For the year ended 31-Dec-23	For the year ended 31-Dec-22
Sale of financial instruments - reclassification to profit or loss	4	114
Existing financial instruments and additions during the year	(1,093)	(1,073)
Total	**(1,089)**	**(959)**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS

	2023	2022
Loans and advances to customers	332,572	279,542
Accrued interest	1,502	1,333
Deferred disbursement fees	(992)	(844)
Total	**333,082**	**280,031**
Allowance for ECL/impairment losses on loans and advances to customers	(7,954)	(7,842)
Loans and advances to customers, net	**325,128**	**272,189**
Current	96,523	84,723
Non-current	228,605	187,466

A reconciliation of non - retail and retail loans are as follows:

	2023	2022
Gross carrying amount		
Non - retail loans	177,099	146,709
Retail loans	155,983	133,322
	333,082	**280,031**
ECL/impairment losses		
Allowance for ECL/impairment losses – Non – Retail loans	(4,386)	(5,771)
Allowance for ECL/impairment losses – Retail loans	(3,568)	(2,071)
Allowance for ECL/impairment losses on loans and advances to customers	**(7,954)**	**(7,842)**
Loans and advances to customers, net	**325,128**	**272,189**

Movements in the allowance for impairment losses on loans and advances to customers are as follows:

	2023	2022
At 1 January	7,842	7,357
ECL/Loan loss provision	998	1,151
Loans written off	(886)	(666)
At 31 December	**7,954**	**7,842**

The Bank manages individual counterparty exposures in order to be compliant with the rules of the Central Bank that require individual counterparty exposures not to exceed 15% of Tier I Capital (or EUR 38,091 thousand).

As at 31 December 2023 and 2022 there are no counterparty exposures above 15% of the limit. In addition, the cumulative exposure of the top 10 clients of the Bank is EUR 19,659 thousand or 5.88% of the loan portfolio (2022: EUR 15,718 thousand or 5.58%).

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans are as follows:

	Stage 1	Stage 2	Stage 3	
Total loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Carrying amount**
Gross carrying amount as at 1 January 2023	**223,500**	**50,786**	**5,745**	**280,031**
Transfers:				
Transfer from Stage 1 to Stage 2	(8,076)	8,076	-	**-**
Transfer from Stage 1 to Stage 3	(807)	-	807	**-**
Transfer from Stage 2 to Stage 1	7,986	(7,986)	-	**-**
Transfer from Stage 2 to Stage 3	-	(1,125)	1,125	**-**
Transfer from Stage 3 to Stage 2	-	35	(35)	**-**
Transfer from Stage 3 to Stage 1	16	-	(16)	**-**
Derecognitions other than write-offs	(51,226)	(20,008)	(1,247)	**(72,481)**
Repayment and change in cash flow	(33,368)	(5,957)	(567)	**(39,892)**
New loans originated or purchased	142,713	23,275	322	**166,310**
Write-offs	-	-	(886)	**(886)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2023	**280,738**	**47,096**	**5,248**	**333,082**

	Stage 1	Stage 2	Stage 3	
Total loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Carrying amount**
Gross carrying amount as at 1 January 2022	**216,067**	**17,661**	**5,863**	**239,591**
Transfers:				
Transfer from Stage 1 to Stage 2	(21,188)	21,188	-	**-**
Transfer from Stage 1 to Stage 3	(813)	-	813	**-**
Transfer from Stage 2 to Stage 1	2,062	(2,062)	-	**-**
Transfer from Stage 2 to Stage 3	-	(459)	459	**-**
Transfer from Stage 3 to Stage 2	-	89	(89)	**-**
Transfer from Stage 3 to Stage 1	4	-	(4)	**-**
Derecognitions other than write-offs	(61,636)	(6,692)	(695)	**(69,023)**
Repayment and change in cash flow	(27,733)	(2,663)	(543)	**(30,939)**
New loans originated or purchased	116,737	23,724	607	**141,068**
Write-offs	-	-	(666)	**(666)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2022	**223,500**	**50,786**	**5,745**	**280,031**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Total loans	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**Total**
ECL amount as at 1 January 2023	**1,381**	**1,487**	**4,974**	**7,842**
Transfers:				
Transfer from Stage 1 to Stage 2	(451)	451	-	**-**
Transfer from Stage 1 to Stage 3	(526)	-	526	**-**
Transfer from Stage 2 to Stage 1	42	(42)	-	**-**
Transfer from Stage 2 to Stage 3	-	(764)	764	**-**
Transfer from Stage 3 to Stage 2	-	1	(1)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	1,047	162	(330)	**879**
Derecognitions other than write-offs	(267)	(267)	(1,132)	**(1,666)**
New loans originated or purchased	1,017	522	246	**1,785**
Write-offs	-	-	(886)	**(886)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**862**	**63**	**(813)**	**112**
ECL amount as at 31 December 2023	**2,243**	**1,550**	**4,161**	**7,954**

Total loans	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**Total**
ECL amount as at 1 January 2022	**431**	**2,454**	**4,472**	**7,357**
Transfers:				
Transfer from Stage 1 to Stage 2	(642)	642	-	**-**
Transfer from Stage 1 to Stage 3	(648)	-	648	**-**
Transfer from Stage 2 to Stage 1	24	(24)	-	**-**
Transfer from Stage 2 to Stage 3	-	(308)	308	**-**
Transfer from Stage 3 to Stage 2	-	5	(5)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	1,638	(1,204)	313	**747**
Derecognitions other than write-offs	(93)	(684)	(524)	**(1,301)**
New loans originated or purchased	671	606	428	**1,705**
Write-offs	-	-	(666)	**(666)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**950**	**(967)**	**502**	**485**
ECL amount as at 31 December 2022	**1,381**	**1,487**	**4,974**	**7,842**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for non-retail loans are as follows:

Non – retail loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Carrying amount
Gross carrying amount as at 1 January 2023	**107,946**	**33,809**	**4,954**	**146,709**
Transfers:				
Transfer from Stage 1 to Stage 2	(3,673)	3,673	-	**-**
Transfer from Stage 1 to Stage 3	(515)	-	515	**-**
Transfer from Stage 2 to Stage 1	6,975	(6,975)	-	**-**
Transfer from Stage 2 to Stage 3	-	(730)	730	**-**
Transfer from Stage 3 to Stage 2	-	19	(19)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Derecognitions other than write-offs	(28,837)	(15,341)	(1,178)	**(45,356)**
Repayments and change in cash flow	(21,435)	(3,564)	(485)	**(25,484)**
New loans originated or purchased	84,110	17,698	157	**101,965**
Write-offs	-	-	(735)	**(735)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2023	**144,571**	**28,589**	**3,939**	**177,099**

Non – retail loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Carrying amount
Gross carrying amount as at 1 January 2022	**109,092**	**14,905**	**5,000**	**128,997**
Transfers:				
Transfer from Stage 1 to Stage 2	(10,237)	10,237	-	**-**
Transfer from Stage 1 to Stage 3	(518)	-	518	**-**
Transfer from Stage 2 to Stage 1	1,627	(1,627)	-	**-**
Transfer from Stage 2 to Stage 3	-	(380)	380	**-**
Transfer from Stage 3 to Stage 2	-	19	(19)	**-**
Transfer from Stage 3 to Stage 1	3	-	(3)	**-**
Derecognitions other than write-offs	(35,521)	(6,199)	(587)	**(42,307)**
Repayments and change in cash flow	(17,900)	(2,286)	(471)	**(20,657)**
New loans originated or purchased	61,400	19,140	513	**81,053**
Write-offs	-	-	(377)	**(377)**
FX and other movements	-	-	-	**-**
ECL amount as at 31 December 2022	**107,946**	**33,809**	**4,954**	**146,709**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2023	**492**	**980**	**4,299**	**5,771**
Transfers:				
Transfer from Stage 1 to Stage 2	(185)	185	-	**-**
Transfer from Stage 1 to Stage 3	(292)	-	292	**-**
Transfer from Stage 2 to Stage 1	27	(27)	-	**-**
Transfer from Stage 2 to Stage 3	-	(466)	466	**-**
Transfer from Stage 3 to Stage 2	-	1	(1)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	381	(114)	(307)	**(40)**
Derecognitions other than write-offs	(96)	(142)	(1,078)	**(1,316)**
New loans originated or purchased	354	246	106	**706**
Write-offs	-	-	(735)	**(735)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**189**	**(317)**	**(1,257)**	**(1,385)**
ECL amount as at 31 December 2023	**681**	**663**	**3,042**	**4,386**

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2022	**295**	**1,995**	**3,818**	**6,108**
Transfers:				
Transfer from Stage 1 to Stage 2	(326)	326	-	**-**
Transfer from Stage 1 to Stage 3	(417)	-	417	**-**
Transfer from Stage 2 to Stage 1	20	(20)	-	**-**
Transfer from Stage 2 to Stage 3	-	(246)	246	**-**
Transfer from Stage 3 to Stage 2	-	2	(2)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	735	(915)	283	**103**
Derecognitions other than write-offs	(65)	(629)	(449)	**(1,143)**
New loans originated or purchased	250	467	363	**1,080**
Write-offs	-	-	(377)	**(377)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**197**	**(1,015)**	**481**	**(337)**
ECL amount as at 31 December 2022	**492**	**980**	**4,299**	**5,771**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for retail loans are as follows:

	Stage 1	Stage 2	Stage 3	
Retail loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Carrying amount**
Gross carrying amount as at 1 January 2023	**115,553**	**16,978**	**791**	**133,322**
Transfers:				
Transfer from Stage 1 to Stage 2	(4,403)	4,403	-	**-**
Transfer from Stage 1 to Stage 3	(292)	-	292	**-**
Transfer from Stage 2 to Stage 1	1,011	(1,011)	-	**-**
Transfer from Stage 2 to Stage 3	-	(395)	395	**-**
Transfer from Stage 3 to Stage 2	-	15	(15)	**-**
Transfer from Stage 3 to Stage 1	16	-	(16)	**-**
Derecognitions other than write-offs	(22,388)	(4,666)	(69)	**(27,123)**
Repayments and change in cash flow	(11,933)	(2,394)	(82)	**(14,409)**
New loans originated or purchased	58,603	5,577	164	**64,344**
Write-offs	-	-	(151)	**(151)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2023	**136,167**	**18,507**	**1,309**	**155,983**

	Stage 1	Stage 2	Stage 3	
Retail loans	**12-month ECL**	**Lifetim e ECL**	**Lifetime ECL**	**Carrying amount**
Gross carrying amount as at 1 January 2022	**106,975**	**2,756**	**863**	**110,594**
Transfers:				
Transfer from Stage 1 to Stage 2	(10,950)	10,950	-	**-**
Transfer from Stage 1 to Stage 3	(295)	-	295	**-**
Transfer from Stage 2 to Stage 1	436	(436)	-	**-**
Transfer from Stage 2 to Stage 3	-	(79)	79	**-**
Transfer from Stage 3 to Stage 2	-	70	(70)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Derecognitions other than write-offs	(26,116)	(491)	(107)	**(26,714)**
Repayments and change in cash flow	(9,833)	(376)	(73)	**(10,282)**
New loans originated or purchased	55,336	4,584	94	**60,014**
Write-offs	-	-	(290)	**(290)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2022	**115,553**	**16,978**	**791**	**133,322**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2023	**889**	**507**	**675**	**2,071**
Transfers:				
Transfer from Stage 1 to Stage 2	(266)	266	-	**-**
Transfer from Stage 1 to Stage 3	(233)	-	233	**-**
Transfer from Stage 2 to Stage 1	15	(15)	-	**-**
Transfer from Stage 2 to Stage 3	-	(298)	298	**-**
Transfer from Stage 3 to Stage 2	-	1	(1)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	666	276	(23)	**919**
Derecognitions other than write-offs	(171)	(125)	(54)	**(350)**
New loans originated or purchased	662	276	141	**1,079**
Write-offs	-	-	(151)	**(151)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**673**	**381**	**443**	**1,497**
ECL amount as at 31 December 2023	**1,562**	**888**	**1,118**	**3,568**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2022	**136**	**459**	**654**	**1,249**
Transfers:				
Transfer from Stage 1 to Stage 2	(316)	316	-	**-**
Transfer from Stage 1 to Stage 3	(231)	-	231	**-**
Transfer from Stage 2 to Stage 1	3	(3)	-	**-**
Transfer from Stage 2 to Stage 3	-	(62)	62	**-**
Transfer from Stage 3 to Stage 2	-	3	(3)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	903	(289)	30	**644**
Derecognitions other than write-offs	(28)	(55)	(74)	**(157)**
New loans originated or purchased	422	138	65	**625**
Write-offs	-	-	(290)	**(290)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**753**	**48**	**21**	**822**
ECL amount as at 31 December 2022	**889**	**507**	**675**	**2,071**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

A reconciliation of the allowance for impairment losses for loans and advances, by class, is, as follows:

	Non-retail	Retail	Total
At 1 January 2022	**6,108**	**1,249**	**7,357**
Charge for the year	40	1,111	1,151
Amounts written off	(377)	(289)	(666)
At 31 December 2022	**5,771**	**2,071**	**7,842**
At 1 January 2023	**5,771**	**2,071**	**7,842**
Charge for the year	(650)	1,648	998
Amounts written off	(735)	(151)	(886)
At 31 December 2023	**4,386**	**3,568**	**7,954**

15. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2022	**2,645**
Re-classification of the opening balances	(31)
Additions	653
Disposals	(837)
At 31 December 2022	**2,430**
Additions	837
Disposals	-
At 31 December 2023	**3,267**
Accumulated Amortization	
At 1 January 2022	**1,957**
Re-classification of the opening balances	(7)
Charge for the year	462
Disposals	**(837)**
At 31 December 2022	**1,575**
Charge for the year	548
Disposals	-
At 31 December 2023	**2,123**
Carrying amount	
At 31 December 2022	**855**
At 31 December 2023	**1,144**

(Amounts in thousands of EUR, unless otherwise stated)

16. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2022	**705**	**1,180**	**1,025**	**3,057**	**695**	**6,662**
Re-classification of the opening balances	-	55	137	(163)	(2)	27
Additions during the year	-	171	150	497	-	818
Disposals during the year	-	(6)	(60)	(405)	(2)	(473)
At 31 December 2022	**705**	**1,400**	**1,252**	**2,986**	**691**	**7,034**
Additions during the year	-	449	159	429	73	1,110
Disposals during the year	-	-	(31)	(109)	-	(140)
At 31 December 2023	**705**	**1,849**	**1,380**	**3,306**	**764**	**8,004**
Accumulated depreciation						
At 1 January 2022	**150**	**794**	**759**	**2,170**	**276**	**4,149**
Re-classification of the opening balances	-	45	113	(145)	(3)	10
Charge for the year	33	159	127	430	128	877
Disposals for the year	-	(7)	(60)	(404)	(3)	(474)
At 31 December 2022	**183**	**991**	**939**	**2,051**	**398**	**4,562**
Charge for the year	33	211	140	341	99	823
Disposals for the year	-	-	(29)	(108)	-	(137)
At 31 December 2023	**216**	**1,202**	**1,050**	**2,284**	**497**	**5,249**
Carrying amounts						
At 31 December 2022	**522**	**409**	**313**	**934**	**293**	**2,472**
At 31 December 2023	**489**	**647**	**330**	**1,022**	**267**	**2,755**

In both years, the Bank does not have any property pledged as collateral.

(Amounts in thousands of EUR, unless otherwise stated)

17. OTHER ASSETS

	2023	2022
Prepaid expenses	219	316
Repossessed assets (see note 17.1)	-	-
Receivables from customers	325	203
Accrued income from banking services	20	14
Accrued fees and commissions	13	35
Other receivables	121	230
ECL for other assets	(84)	(84)
Total	**614**	**714**

An analysis of changes in the ECLs for other assets for 2023 is, as follow:

Movement of ECL for other assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2023	**84**	**-**	**-**	**84**
Transfers:				
Derecognitions other than write-offs	-	-	-	**-**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2023	**84**	**-**	**-**	**84**

An analysis of changes in the ECLs for other assets for 2022 is, as follow:

Movement of ECL for other assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2022	**84**	**-**	**-**	**84**
Transfers:				
Derecognitions other than write-offs	-	-	-	**-**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**84**	**-**	**-**	**84**

(Amounts in thousands of EUR, unless otherwise stated)

17.1 REPOSSESED ASSETS

Repossessed assets are properties acquired through enforcement of security over loans and advances to customers. The Bank intends and is taking steps to sell these within a reasonable short period of time.

	2023	2022
Residential real estate	-	-
Commercial real estate	83	83
Addition during the year	172	597
Disposal during the year	(172)	(597)
Total	**83**	**83**
Less: Impairment provision	(83)	(83)
Net carrying value	-	-

The fair value of these assets is determined with reference to market values by independent external valuers and as of 31 December 2023 was EUR 135 thousand. The values are further written down depending on their location, maintenance and conditions to reflect delays in likely settlement and the length of time for holding the asses.

Movements in the impairment provision are as follows:

	2023	2022
At 1 January	-	-
Allowance for impairment during the year	83	83
Reversal on disposal	(83)	(83)
Write off	-	-
At 31 December	**-**	**-**

(Amounts in thousands of EUR, unless otherwise stated)

18. DUE TO CUSTOMERS

Out of the total amount of EUR 416,652 thousand, the amount of EUR 1,684 thousand represents the accrued interest as at December 31, 2023 (December 31, 2022 EUR 352,305 thousand: EUR 1,272 thousand).

	2023	2022
Current accounts	**205,229**	**177,683**
In EUR	201,922	174,063
In foreign currencies	3,307	3,620
Add: Current maturity of long-term customer deposits	164,589	142,901
Total short-term customer deposits	**369,818**	**320,584**
Term deposits	**211,424**	**174,622**
In EUR	211,399	174,520
In foreign currencies	25	102
Less: Current maturity of long-term customer	(164,589)	(142,901)
Total long-term customer deposits	**46,835**	**31,721**
Total	**416,652**	**352,305**

19. DUE TO BANKS

Out of the total amount EUR 75 thousand, the amount of 1 thousand comes from the foreign banks (December 31, 2022 EUR 1,169 thousand, EUR 1 thousand) and the others is domestic and all are current accounts with no interests.

DUE TO BANKS	2023	2022
In EUR	75	1,168
In foreign currencies	1	1
Total	**76**	**1,169**

The total amount by EUR 76 thousand consists the current account balances and it is placed as short term.

(Amounts in thousands of EUR, unless otherwise stated)

20. SUBORDINATED DEBT

	2023	2022
Subordinated debt		
EMF MICROFINANCE FUND AGMVK	502	502
Total	**502**	**502**

During the year 2018, the Bank entered into a subordinated loan agreement with Blue Orchard in the amount of EUR 500 thousand. The loan bears interest rate of 6.5% per annum, payable on a semiannual basis, and the principal is payable in one single installment on December 12, 2026. As of 31 December 2023 the Bank is in compliance with financial covenants attached to the agreement with EMF Microfinance Fund AGMVK.

21. BORROWINGS

Borrowings	**2023**	**2022**
Borrowings from EBRD	7,261	4,873
Total	**7,261**	**4,873**
Current	2,761	2,167
Non-Current	4,500	2,706

During the year 2023, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total amount of EUR 6,000 thousand. Only EUR 3,000 thousand was disbursed in 2023.The purpose is to support finance investments in micro, small and medium enterprises. The borrowing bears an interest rate of 1.4% annually plus 6 months EURIBOR, which is repayable within three years. The interest is payable on a semi-annual basis.

During the year 2023, the Bank has received the second tranche in amount of EUR 1,500 from the borrowing agreement signed in 2022 in amount EUR 4,500 (Youth in Business).

During the year 2022, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total amount of EUR 4,500 thousand. Only EUR 1,500 thousand was disbursed in 2022.The purpose is to support youth in business, and it aims youth's participation in economy. The borrowing bears an interest rate of 1.8% annually plus 6 months EURIBOR, which is repayable within three years. The interest is payable on a semi-annual basis.

During the year 2021, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total amount of EUR 5,000 thousand. The purpose is to support SME competitiveness, and it aims to foster economic development and prosperity through the sustainable provision of additional development finance. The borrowing bears an interest rate of 1.8% annually plus 6 months EURIBOR, which is repayable within three years. The interest is payable on a semi-annual basis.

The Bank provides quarterly to EBRD the financial statements and the financial covenants and during 2023 and 2022 the Bank was in full compliance with the financial covenants.

(Amounts in thousands of EUR, unless otherwise stated)

21. BORROWINGS (CONTINUED)

The borrowing is not secured with any collateral.

Changes in liabilities arising from financing activities are presented as follows:

2023	**1 January**	**Cash inflows**	**Cash outflows**	**Accrued interest**	**31 December**
Borrowings	**4,873**	4,500	(2,167)	55	**7,261**
2022					
Borrowings	**6,832**	1,500	(3,479)	20	**4,873**

(Amounts in thousands of EUR, unless otherwise stated)

22. RIGHT OF USE ASSETS AND LEASE LIABILITY

Right-of-use assets and lease liabilities

The Bank leases various offices. Rental contracts are typically made for fixed periods of 1 year to 10 years, but may have extension options as described below.

Leases are recognized as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The Bank recognized right of use assets as follows:

	Buildings	Total
Carrying amount at 1 January 2022	**2,378**	**2,378**
Additions	910	910
Disposals	-	-
Depreciation charge	(708)	(708)
Carrying amount at 31 December 2022	**2,580**	**2,580**
Additions	1,015	1,015
Disposals	-	-
Depreciation charge	(773)	(773)
Carrying amount at 31 December 2023	**2,822**	**2,822**

The Bank recognized lease liabilities as follows:

	31 December 2023	31 December 2022
Short-term lease liabilities	774	688
Long-term lease liabilities	2,124	1,977
Total lease liabilities	**2,898**	**2,665**

Lease commitments

Operating lease commitments. The future minimum lease payments under non-cancellable operating leases, where the Bank is the lessee, at 31 December 2023 are EUR 412 (2022: 366).

During the year 2023 the interest expenses for leases is EUR 74 thousand (2022: EUR 74 thousand).

(Amounts in thousands of EUR, unless otherwise stated)

23. OTHER LIABILITIES AND PROVISIONS

	2023	2022
Payable related to clearing transactions with CBK	2,402	2,294
Payables on behalf of third parties	1,298	1,404
Due to suppliers	446	957
Other creditors	18	772
Payable on behalf of Ministry of Economy and Finance	109	67
Allowance for ECL for unused commitments	35	36
Allowance for ECL for financial guarantees issued by the bank	11	15
Total other liabilities	**4,319**	**5,545**
Provisions (see Note 25.1 below)	276	330
Total	**4,595**	**5,875**

An analysis of changes in the ECLs for unused commitments for 2023 and 2022 is, as follow:

	Stage 1	Stage 2	Stage 3	
Unused commitments 2023	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Allowance for ECL as at 1 January 2023	**21**	**9**	**6**	**36**
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	(6)	(2)	1	**(7)**
Derecognitions other than write-offs	(10)	(6)	(6)	**(22)**
Repayments and change in cash flow	-	-	-	**-**
New commitments originated or purchased	17	4	7	**28**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**1**	**(4)**	**2**	**(3)**
Allowance for ECL as at 31 December 2023	**22**	**5**	**8**	**35**

(Amounts in thousands of EUR, unless otherwise stated)

23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

	Stage 1	Stage 2	Stage 3	
Unused commitments 2022	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Allowance for ECL as at 1 January 2022	**26**	**22**	**2**	**50**
Transfers:				
Transfer from Stage 1 to Stage 2	(2)	2	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	(4)	(5)	(1)	**(10)**
Derecognitions other than write-offs	(12)	(17)	(1)	**(30)**
Repayments and change in cash flow	-	-	-	**-**
New commitments originated or purchased	13	7	6	**26**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(5)**	**(13)**	**4**	**(14)**
Allowance for ECL as at 31 December 2022	**21**	**9**	**6**	**36**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for letters of guarantees are as follows:

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Allowance for ECL as at 1 January 2023	**1,311**	**129**	**10**	**1,450**
Transfers:				
Transfer from Stage 1 to Stage 2	(60)	60	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	63	(63)	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	-	-	-	**-**
Derecognitions other than write-offs	(238)	-	-	**(238)**
Repayments and change in cash flow	-	-	-	**-**
New guarantees originated or purchased	314	8	-	**322**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2023	**1,390**	**134**	**10**	**1,534**

(Amounts in thousands of EUR, unless otherwise stated)

23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Carrying amount
Gross carrying amount as at 1 January 2022	**2,300**	**66**	**10**	**2,376**
Transfers:				
Transfer from Stage 1 to Stage 2	(37)	37	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	-	-	-	**-**
Derecognitions other than write-offs	(1,362)	(14)	-	**(1,376)**
Repayments and change in cash flow	-	-	-	**-**
New guarantees originated or purchased	410	40	-	**450**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2022	**1,311**	**129**	**10**	**1,450**

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for ECL amount as at 1 January 2023	**2**	**4**	**9**	**15**
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	(1)	(4)	1	**(4)**
Derecognitions other than write-offs	-	-	-	**-**
New guarantees originated or purchased	-	-	-	**1**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(1)**	**(4)**	**1**	**(4)**
ECL amount as at 31 December 2023	**1**	**0**	**10**	**11**

(Amounts in thousands of EUR, unless otherwise stated)

23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2022	**2**	**12**	**7**	**21**
Transfers:				
Transfer from Stage 1 to Stage 2	(1)	1	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	-	(9)	1	**(8)**
Derecognitions other than write-offs	-	(2)	1	**(1)**
New guarantees originated or purchased	1	2	-	**3**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(1)**	**(7)**	**1**	**(7)**
ECL amount as at 31 December 2022	**2**	**4**	**9**	**15**

24. SHARE CAPITAL AND RESERVES

Share capital

In accordance with Law no. 04/L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum paid-in capital for domestic banks operating in Kosovo is EUR 7 million. At 31 December 2023, the subscribed capital was divided into 28,530 ordinary shares (2022: 28,530 ordinary shares) with a nominal value of EUR 394.2 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets. The structure of subscribed capital is as follows:

No.	Name of shareholder	2023		2022	
		%	**EUR**	**%**	**EUR**
1	Afrim Govori	21.27	2,392	21.27	2,392
2	Shaqir Palushi	20.71	2,329	20.56	2,312
3	Rrustem Aliaj	17.27	1,942	17.27	1,942
4	EBRD	10.00	1,125	10.00	1,125
5	Mejdi Rexhepi	9.35	1,052	9.35	1,052
6	Moneta Sh.p.k	7.77	874	7.77	874
7	Kareman Limani	4.85	545	4.85	545
8	Banca di Cividale S.P.A.	4.62	520	4.62	520
9	Ahmet Arifi	2.39	269	2.39	269
10	Luani Limited	0.44	49	0.44	49
11	Agim Bilalli	0.31	35	0.31	35
12	Besnik Vrella	0.31	35	0.31	35
13	Habibe Aliu	0.31	35	0.31	35
14	Sokol Krasniqi	0.23	26	0.38	42
15	Flamur Bryma	0.09	10	0.09	10
16	Nazmi Viça	0.04	5	0.04	5
17	Naim Abazi	0.04	4	0.04	4
Total		**100.00**	**11,247**	**100.00**	**11,247**

24. SHAREHOLDER'S EQUITY AND RESERVES (CONITINUED)

Dividend distribution

During 2023 a dividend was paid from the profit for year 2022. The payment was made based on the decision of the shareholder's assembly and approved by the CBK with decision no. 24-14/2023. The value of the dividend paid is Euro 2,560 thousand (2022: Euro 2,363), or 30% of the profit for the two consecutive years. The dividend paid per share was Euro 89.73 (2022 Euro 82.83).

Other capital reserve

Based on CBK regulations, starting from January 1, 2020, all Banks in Kosovo were required to prepare and present their financial statements based on IFRS only. The difference in loan loss provisions between CBK and IFRS framework of reporting as at that date was recognized under Other Equity Reserve. As of January 1, 2020, the amount recognized as a change in loan loss reserve between CBK and IFRS reporting standards is EUR 769 thousand.
This reserve is restricted and not distributable.

Revaluation reserve

During 2014, the Bank decided to include in the Property and equipment a building which has previously been obtained as repossessed collateral and revaluated. The building was recognized by the Bank in Property and equipment with a corresponding amount in the revaluation reserve in equity. Subsequently, the building is carried at amortized cost.

Earnings per share

For the purpose of calculating earnings per share, earnings represent the net profit after tax. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares used for basic earnings per share was 28,530 (2022: 28,530). There is no potential dilution effect from any instruments and hence the basic earnings per share are the same as diluted earnings per share.

(Amounts in thousands of EUR, unless otherwise stated)

25. COMMITMENTS AND CONTINGENCIES

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Guarantees issued in favor of customers are secured by cash collateral, and non-cash collateral (real estate and movable collateral).

Guarantees extended to customers	2023	2022
Secured by cash deposits	423	616
Secured by collateral (real estate and movable collateral)	1,111	834
Less: Allowance for ECL for letters of guarantees recognized as other liabilities	(11)	(15)
Total	**1,523**	**1,435**

Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

Credit commitments	2023	2022
Approved but not disbursed loans	-	-
Unused overdraft limits approved	12,650	8,116
Unused credit card facilities	450	458
Allowance for ECL for unused credit card facilities recognized as other liabilities	(35)	(36)
Total	**13,065**	**8,538**

25.1 PROVISIONS

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business as at 31 December 2023 and 2022. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims, except for those already provided for and recognized in profit or loss as disclosed in Note 23.

Provisions include reserve for third-party active claims. Based on its policies and procedures, the Bank determines in each quarter the current reserve through the reassessment of each claim individually.

Following is presented the movement of provisions as of 31 December:

	2023	2022
At 1 January	330	523
Additions during the year	-	34
Utilized during the year	(43)	(148)
Released during the year	(11)	(79)
At 31 December	**276**	**330**

26. FINANCIAL RISK MANAGEMENT

26.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk Management

Risk Management Department is organized in three sectors including Credit Risk Sector, the Market and Liquidity Risk Sector and Operational Risk Sector. Risk Management Department is responsible for drafting and/or reviewing policies and procedures related to risk and managing banks' risks.

The Bank has followed the strategy of further diversification and growth in loan portfolio according to the defined segments of the loans.

Regarding the calculation of the ECL, the Bank has further advanced the process and automated some of the inputs also including the information from monitoring module to assess the SICR.

In line with the business model and strategy, the Bank has continued to improve the credit risk process. In this regard, it has continued with the utilization of the upgrades and developments of new applications made on previous year for credit portfolio management.

Economic events considerations

Despite facing macroeconomic challenges like those seen in most countries, particularly European area due to the conflict in Ukraine and rising inflation, our bank has been successful in maintaining risk at acceptable levels. The banking industry, including our bank, has shown strong performance with record profits and effective risk management, keeping same level in asset quality. However, in order to be ready and prepared for any potential challenge that could impact the quality of the portfolio, the Bank has taken action by ramping up its monitoring and analysis of sectors that may be vulnerable to inflation or energy crises. As a result, it has properly assessed these risks and allocated adequate reserves. The risk management department also thoroughly reviewed and updated necessary policies, strategies, methodologies, procedures, and other relevant documents to reflect necessary changes brought on by the inflation.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and to other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank assumes exposure to credit risk which is the risk that the other party will not be able to repay the full amounts on time. The Bank structures the levels of credit risk it assumes by setting limits on the amount of risk accepted in relation to a borrower and a geographical or industrial segment. Such risks are regularly monitored and subject to monthly or more frequent review.

Limits on the level of credit risk from the borrower are approved in Management level, except cases above 10% of Tier I Capital and cases with related parties, that are approved on Board of Directors level.

In addition to the growth of the loan portfolio and the reduction of large exposures, the Bank has continued to keep and preserve the credit quality. The Bank has further improved the credit quality, regarding the loan quality indicator – Non-performing loans (NPL) in 2022 it was 2.05%, while in 2023 this indicator is 1.58%.

Impairment assessment

Risk Management Department is responsible for drafting and/or reviewing policies and procedures related to risk and managing banks' risks.

The Bank has followed the strategy of further diversification and growth in loan portfolio according to the defined segments of the loans.

Regarding the calculation of the ECL, the Bank has further advanced the process and automated some of the inputs also including the information from monitoring module to assess the SICR.

In line with the business model and strategy, the Bank has continued to improve the credit risk process. In this regard, it has continued with improvements and the upgrades of existing applications for more efficient management of the credit portfolio.

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

Impairment assessment (continued)

The Bank's internal rating and PD Estimation process

The Bank's independent Risk Management Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its borrowers are rated from 0 to 8 for performing borrowers and rating 9 which represent non-performing/default borrower.

Below are disclosed internal credit rating grades used by bank as of 31 December 2023:

Rating IFRS 9	Average of 12-month PD	Average of LGD
0	1.0%	53.7%
1	1.0%	51.2%
2	1.1%	53.6%
3	0.9%	52.4%
4	1.6%	49.0%
5	2.6%	51.7%
6	4.5%	51.9%
7	14.1%	52.3%
8	30.2%	51.1%
Default	100.0%	64.3%

Below are disclosed internal credit rating grades used by bank as of 31 December 2022:

Rating IFRS 9	Average of 12-month PD	Average of LGD
0	0.7%	55.1%
1	0.6%	53.7%
2	0.9%	53.4%
3	0.8%	51.8%
4	1.4%	49.4%
5	2.5%	51.6%
6	3.6%	51.5%
7	10.7%	52.8%
8	26.0%	52.0%
Default	100.0%	62.6%

Restructured and modified loans

Bank sometimes makes changes to the original loan terms in response to the borrower's financial difficulties, rather than taking possession or forcing the collection of collateral.
The Bank considers a restructured loan when these modifications are granted as a result of the borrower's current or expected financial difficulties and the Bank would not have agreed to those conditions if the borrower had been financially healthy. Indicators of financial difficulty include delays of covenants or significant concerns raised by the Risk Department. Restructuring can include extending payment agreements and agreeing new loan terms.
The Bank, at the time of assessing whether a credit exposure will be subject to restructuring conditions, assesses whether that exposure has had a significant increase in credit risk, or meets the default criteria and is recognized as a non-performing loan.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.1 Impairment assessment (continued)

Restructured and modified loans (continued)

Reclassification criteria for restructured loans

Once a financial asset will have the restructuring flag, it will keep this flag for the minimum probationary period of 24 months. In order for the loan to be reclassified from the restructured category, the client must meet all of the following criteria:

- The probationary period of two years has elapsed from the date when the restructuring contract was considered performing
- The client does not have a contract that is more than 30 days past due

Furthermore, if the credit exposure at the time of restructuring was classified as non-performing, all of the following criteria must be met to be classified as performing:

- Applying for restructuring does not result in de-recognition of the asset or defaulted;
- One-year period (12 months) has passed since it was restructured;
- Under the terms of the restructuring there is no amount of arrears or concerns about the full repayment of the restructured exposure, which must be determined according to an analysis of the borrower's financial condition.

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.1 Impairment assessment (continued)

Restructured and modified loans (continued)

The following tables present a summary of financial assets that have been regularly restructured and restructured due to Covid-19 as at 31 December 2023:

		Stage 1		Stage 2		Stage3			
31-Dec-23	**Gross carrying amount**	**Permanent modification to T&Cs**	**Total performing forborne loans**	**Permanent modification to T&Cs**	**Total performing forborne loans**	**Permanent modification to T&Cs**	**Total nonperforming forborne loans**	**Total forborne loans**	**Forbearance ratio**
Due from banks	-	-	-	-	-	-	-	-	0.0%
Loans and advances to customers									
Nonretail loans	177,099	1,924	1,924	1,315	1,315	1,957	1,957	5,196	2.93%
Retail loans	155,983	26	26	117	117	286	286	429	0.28%
Total loans and advances to customers	**333,082**	**1,950**	**1,950**	**1,432**	**1,432**	**2,243**	**2,243**	**5,625**	**1.69%**

31-Dec-23	**Gross amount of forborne loans**				**ECLs of forborne loans**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Due from banks	-	-	-	-		-	-	-
Loans and advances to customers								
Nonretail loans	1,924	1,315	1,957	5,196	7	58	1,544	1,609
Retail loans	26	117	286	429	-	7	259	266
Total loans and advances to customers	**1,950**	**1,432**	**2,243**	**5,625**	**7**	**65**	**1,803**	**1,875**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.1 Impairment assessment (continued)

Restructured and modified loans (continued)

The following tables provide a summary of the Bank's forborne assets as of 31 December 2022:

		Stage 1		Stage 2		Stage 3			
31-Dec-22	**Gross carrying amount**	**Permanent modification to T&Cs**	**Total performing forborne loans**	**Permanent modification to T&Cs**	**Total performing forborne loans**	**Permanent modification to T&Cs**	**Total nonperforming forborne loans**	**Total forborne loans**	**Forbearanc e ratio**
Due from banks	-	-	-	-	-	-	-	-	0.0%
Loans and advances to customers									
Nonretail loans	146,709	3,000	3,000	3,025	3,025	2,491	2,491	8,516	5.80%
Retail loans	133,322	35	35	179	179	130	130	344	0.26%
Total loans and advances to customers	**280,031**	**3,035**	**3,035**	**3,204**	**3,204**	**2,621**	**2,621**	**8,860**	**3.16%**

31-Dec-22	**Gross amount of forborne loans**				**ECLs of forborne loans**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Due from banks		-	-	-		-	-	-
Loans and advances to customers								
Nonretail loans	3,000	3,025	2,491	8,516	24	155	2,171	2,350
Retail loans	35	179	130	344	1	7	108	116
Total loans and advances to customers	**3,035**	**3,204**	**2,621**	**8,860**	**25**	**162**	**2,279**	**2,466**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.2 Loan portfolio sectorial breakdown and expected credit losses

Set out below is an analysis of loans and advances to customers measured at amortized cost during the year ended 31 December 2023:

	Stage 1	Stage 2	Stage 3	
Assets measured at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying value per loan type				
Individual	136,167	18,507	1,309	**155,983**
Trade	53,845	5,422	1,280	**60,547**
Production	26,612	4,439	570	**31,621**
Agro	11,948	1,093	549	**13,590**
Construction	13,569	11,623	132	**25,324**
Services	17,832	2,235	580	**20,647**
Other	20,765	3,777	828	**25,370**
Total gross carrying value	**280,738**	**47,096**	**5,248**	**333,082**
Loss allowance per asset type				
Individual	(1,563)	(887)	(1,118)	**(3,568)**
Trade	(133)	(122)	(838)	**(1,093)**
Production	(69)	(122)	(469)	**(660)**
Agro	(285)	(87)	(483)	**(855)**
Construction	(51)	(97)	(105)	**(253)**
Services	(72)	(109)	(491)	**(672)**
Other	(71)	(126)	(656)	**(853)**
Total loss allowance	**(2,244)**	**(1,550)**	**(4,160)**	**(7,954)**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.2 Loan portfolio sectorial breakdown and expected credit losses (continued)

Set out below is an analysis of loans and advances to customers measured at amortized cost during the year ended 31 December 2022:

Assets to be measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying value per loan type				
Individual	115,553	16,977	791	**133,321**
Trade	38,792	5,743	1,076	**45,611**
Production	24,008	3,874	788	**28,670**
Agro	13,163	1,453	610	**15,226**
Construction	12	17,279	676	**17,967**
Services	15,864	1,731	598	**18,193**
Other	16,108	3,729	1,206	**21,043**
Total gross carrying value	**223,500**	**50,786**	**5,745**	**280,031**
Loss allowance per asset type				
Individual	(889)	(507)	(674)	**(2,070)**
Trade	(88)	(215)	(896)	**(1,199)**
Production	(51)	(111)	(730)	**(892)**
Agro	(280)	(119)	(560)	**(959)**
Construction	-	(280)	(570)	**(850)**
Services	(38)	(91)	(506)	**(635)**
Other	(36)	(164)	(1,037)	**(1,237)**
Total loss allowance	**(1,382)**	**(1,487)**	**(4,973)**	**(7,842)**

Table below represent the concentration of credit risk for financial assets other than loans and advances to customers:

Financial assets as of 31 December 2023	Financial Institutions	Central Government	Central Bank of Kosova	Total
Cash on hand and at banks	21,186	5,845	-	**27,031**
Balances with Central Bank of Kosova	-	-	54,239	**54,239**
Placements and balances with banks	10,710	-	-	**10,710**
Financial assets at fair value through other comprehensive income	-	61,184	-	**61,184**
Total	**31,896**	**67,029**	**54,239**	**153,164**

Financial assets as of 31 December 2022	Financial Institutions	Central Government	Central Bank of Kosova	Total
Cash on hand and at banks	23,097	-	-	**23,097**
Balances with Central Bank of Kosova	-	-	51,884	**51,884**
Placements and balances with banks	6,325	-	-	**6,325**
Financial assets at fair value through other comprehensive income	-	54,925	-	**54,925**
Total	**29,422**	**54,925**	**51,884**	**136,231**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.3 Analysis of credit quality

The table below represents a maximum exposure to credit risk exposure of the Bank at 31 December 2023 and 2022, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Cash and balances with banks and CBK		**Placements and balances with banks**		**Financial assets at fair value through OCI**		**Loans and advances to customers**		**Other financial assets**		**Financial guarantees and credit commitments**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Maximum exposure to credit risk												
Carrying amount	81,270	74,981	10,710	6,325	61,184	54,925	325,128	272,189	395	398	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	-	-		
	81,270	**74,981**	**10,710**	**6,325**	**61,184**	**54,925**	**325,128**	**272,189**	**395**	**398**		
At amortized cost												
Stage 1	81,276	74,988	10,785	6,370	61,184	54,925	280,738	223,500	395	398	-	-
Stage 2	-	-	-	-	-	-	47,096	50,786	-	-	-	-
Stage 3	-	-	-	-	-	-	5,248	5,745	-	-	-	-
POCI	-	-	-	-	-	-	-	-	-	-	-	-
Total	**81,276**	**74,988**	**10,785**	**6,370**	**61,184**	**54,925**	**333,082**	**280,031**	**395**	**398**	**-**	**-**
Allowance for impairment (individual and collective)	(6)	(7)	(75)	(45)	-	-	(7,954)	(7,842)	-	-	-	-
Net carrying amount	**81,270**	**74,981**	**10,710**	**6,325**	**61,184**	**54,952**	**325,128**	**272,189**	**395**	**398**	-	-
Off balance: maximum exposure												
Credit commitments: Low - fair risk	-	-			-	-	-	-	-	-	13,100	8,574
Financial guarantees: Low - fair risk	-	-			-	-	-	-	-	-	1,535	1,450
Total committed/guaranteed	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**	**14,635**	**10,024**
Allowance for ECL recognized as other liabilities	-	-			-	-	-	-	-	-	(46)	(51)
Total exposure	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**	**14,588**	**9,973**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.3 Analysis of credit quality (continued)

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2023 and 2022, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	2023			2022		
Loans and advances to customers	**Retail**	**Corporate**	**Total loans**	**Retail**	**Corporate**	**Total loans**
Total gross amount	**155,983**	**177,099**	**333,082**	**133,322**	**146,709**	**280,031**
Allowance for impairment (individual and collective)	(3,568)	(4,386)	(7,954)	(2,071)	(5,771)	(7,842)
Net carrying amount	**152,415**	**172,713**	**325,128**	**131,251**	**140,938**	**272,189**
At amortized cost						
Stage 1	136,167	144,571	**280,738**	115,553	107,946	**223,499**
Stage 2	18,507	28,589	**47,096**	16,978	33,809	**50,787**
Stage 3	1,309	3,939	**5,248**	791	4,954	**5,745**
POCI	-	-	**-**	-	-	**-**
Total gross	**155,983**	**177,099**	**333,082**	**133,322**	**146,709**	**280,031**
Stage 1	(1,563)	(681)	**(2,244)**	(889)	(492)	**(1,381)**
Stage 2	(887)	(663)	**(1,550)**	(507)	(980)	**(1,487)**
Stage 3	(1,118)	(3,042)	**(4,160)**	(675)	(4,299)	**(4,974)**
POCI	-	-	**-**	-	-	**-**
Total allowance for impairment	**(3,568)**	**(4,386)**	**(7,954)**	**(2,071)**	**(5,771)**	**(7,842)**
Loans with renegotiated terms						
Carrying amount	428	5,195	**5,623**	344	8,516	**8,860**
From which: Impaired	286	1,957	**2,243**	131	2,490	**2,621**
Allowance for impairment	(266)	(1,609)	**(1,875)**	(116)	(2,350)	**(2,466)**
Net carrying amount	**162**	**3,586**	**3,748**	**228**	**6,166**	**6,394**

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.3 Analysis of credit quality (continued)

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded 0 to 9 in the Bank's internal credit risk rating system where grades 0 to 8 are performing and 9 is default. The provisioning policy for these loans is detailed in Note 3. f).

Individual and collective assessment of loan portfolio

For internal management purpose, the Bank segregates the loans into loans that are assessed individually for impairment: these are loans that are classified as Stage 3 and with exposure above EUR 100 thousand. All other loans are analyzed collectively for impairment assessment purposes.

Past due but not impaired loans

Loans and securities, where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment), in accordance with the regulations of Central Bank of Kosovo for write off. The total amount written off during 2023 is EUR 886 thousand (2022: EUR 666 thousand).

Due from banks

Interbank exposures are closely monitored on a daily basis by risk management and the Treasury Department. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's.

In accordance to the new regulation on large exposures of the Central Bank of Republic of Kosovo, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15% of Tier I Regulatory Capital.

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.3 Analysis of credit quality (continued)

Loans and advances to banks are granted without collateral. The table below presents the Bank's current accounts and time deposits with corresponding banks by credit ratings:

	2023	2022
A+ to A-	8,366	1,898
BBB+ to B-	-	1,248
Not rated	11,407	9,622
At 31 December	**19,773**	**12,768**

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank should pay if the guarantee is called on, which may be significantly greater than the amount recognized as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment.

Risk limit control and mitigation policies

The Bank manage limits and controls the concentrations of credit risk wherever they are identified in particular to individual counterparties and groups, and to affiliates.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, if necessary.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements, and their financial effect

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other movable assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and advances to banks.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances to customers	Maximum exposure to credit risk	Property	Cash Collateral	Equipment	Total collateral used	Surplus collateral	Net uncollateralized exposure
31 December 2023	326,240	488,700	4,119	160,516	653,335	464,232	137,137
31 December 2022	271,683	367,284	4,244	149,910	521,439	367,509	117,754

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Cash and balances with Banks and CBK		Placements and balances with banks		Financial assets at fair value through OCI		Loans and advances to customers		Other financial assets		Financial guarantees	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Concentration by sector												
Corporate	-	-	-	-	-	-	177,099	146,709	-	-	14,588	9,973
Banks	81,270	74,981	10,710	6,325	-	-	-	-	-	-	-	-
Government of Kosovo	-	-	-	-	61,184	54,925	-	-	-	-	-	-
Retail	-	-	-	-	-	-	155,983	133,322	395	398	-	-
Total	**81,270**	**74,981**	**10,710**	**6,325**	**61,184**	**54,925**	**333,082**	**280,031**	**395**	**398**	**14,588**	**9,973**
Concentration by location												
EU countries	8,276	2,511	90	125	4,996	-	-	-	-	-	-	-
Republic of Kosovo	72,752	71,849	10,620	6,200	56,188	54,925	333,082	280,031	395	398	14,588	9,973
Other countries	242	621	-	-	-	-	-	-	-	-	-	-
Total	**81,270**	**74,981**	**10,710**	**6,325**	**61,184**	**54,925**	**333,082**	**280,031**	**395**	**398**	**14,588**	**9,973**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, exchange rates will affect Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The relevant market risks that the Bank deals with are foreign currency risk and interest rate risk in the banking book and these risks are managed in accordance with their respective document/policies.

26.3.1 Interest rate risk

Interest rate risk is the risk of suffering losses due to the fluctuation of interest rates in financial instruments and is mainly as a result of maturity mismatches between assets and liabilities. Consequently, this can increase bank's funding costs compared to the return obtained from assets which might remain unchanged and thus, potentially decrease the interest margin.

In order to mitigate this risk, the Bank measures and monitors interest rate risk based on repricing gap analysis between assets and liabilities in order to limit its exposure to this risk and ensure compliance with CBK regulation on Interest rate risk on banking book. For the purpose of measuring interest rate risk, bank's assets and liabilities are distributed within time buckets according to their maturities and then maturity/ repricing gaps are analyzed.

Due to worldwide macroeconomic trends, specifically the rapid increase in inflation, many central banks in key countries have raised interest rates to curb inflation from growing further. In response to these changes, our bank has taken necessary measures to manage and minimize the risk of interest rates, respectively to finance long-term loans, we have implemented the model with variable interest rates, using 6 months EURIBOR as the reference rate.

The interest rate gap is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. These scenarios aim to simulate interest rate fluctuations in order to measure the impact on banks financial result and capital. Standard scenarios include a 2% parallel shift in the yield curve as required by the CBK regulation.

The results from these scenarios are reported on a monthly basis to bank's Liquidity Risk Management Committee ("LRMC") on management board level and on quarterly basis to Risk Committee on board of director's level. As a result, bank's exposure to interest rate risk remains in line with bank's risk profile and within internal and regulatory limits as set by the CBK. The Bank also uses stress testing scenarios which are prepared at least on a regular annual basis.
The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December are as follows:

	CHF		*USD*		*EUR*	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Assets						
Cash at banks			-	-	-	-
Placements and balances with banks	1.50%	0.50%	5.25%	4.29%	3.36%	1.84%
Loans to customers			-	-	6.69%	6.69%
Financial assets at fair value through OCI			-	-	2.77%	2.51%
Liabilities						
Due to customers	2.7%	3.00%	-	-	2.30%	1.60%
Subordinated debt			-	-	6.50%	6.50%
Borrowings			-	-	5.50%	2.77%

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 *Market risk (continued)*

26.3.1 Interest rate risk (continued)

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

2023	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(3,890)	3,890	4,596	(4,596)
2022	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(3,334)	3,334	4,023	(4,023)

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk (continued)

26.3.1 Interest rate risk (continued)

The following table shows the interest bearing and non-interest bearing financial instruments by repricing date.

31 December 2023		Non- interest bearing	Up to 1 Month	1-3 Month	3-6 Month	6-12 Month	Over 1 year	Total
Assets								
Cash on hand and at banks								
Non-interest bearing		19,183	-	-	-	-	-	**19,183**
Interest bearing	*Fixed*		7,848	-	-	-	-	**7,848**
Balances with CBK								
Non-interest bearing		54,239	-	-	-	-	-	**54,239**
Placements and balances with banks								
Interest bearing	*Fixed*		1,498	-	-	9,212	-	**10,710**
Investment securities								
Interest bearing	*Fixed*		5,046	50	50	254	55,784	**61,184**
Loans to customers								
Interest bearing	*Fixed*		10,079	19,911	20,092	35,710	117,925	**203,717**
Interest bearing	*Variable*		4,912	23,352	25,002	51,590	16,555	**121,411**
Other financial assets								
Non-interest bearing		395	-	-	-	-	-	**395**
Total		**73,817**	**29,383**	**43,313**	**45,144**	**96,766**	**190,264**	**478,687**
Liabilities								
Deposits from customers								
Interest bearing	*Fixed*	-	33,116	10,196	18,593	102,685	46,835	**211,425**
Non-interest bearing		205,227	-	-	-	-	-	**205,227**
Due to Banks								
Interest bearing		-	-	-	-	-	-	**-**
Non-interest bearing		76	-	-	-	-	-	**76**
Subordinated debt								
Interest bearing	*Fixed*	-	-	2	-	-	500	**502**
Borrowings								
Interest bearing	*Variable*	-	-	-	-	-	7,261	**7261**
Other liabilities								
Non-interest bearing		4,319	-	-	-	-	-	**4,319**
Total		**209,622**	**33,116**	**10,198**	**18,593**	**102,685**	**54,596**	**428,810**
Gap		**(135,805)**	**(3,733)**	**33,115**	**26,551**	**(5,919)**	**135,668**	**49,877**
Cumulative gap		**(135,805)**	**(139,538)**	**(106,423)**	**(79,872)**	**(85,791)**	**49,877**	**-**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk (continued)

26.3.1 Interest rate risk (continued)

31 December 2022		**Non- interest bearing**	**Up to 1 Month**	**1-3 Month**	**3-6 Month**	**6-12 Month**	**Over 1 year**	**Total**
Assets								
Cash on hand and at banks								
Non-interest bearing		21,573	-	-	-	-	-	**21,573**
Interest bearing	*Fixed*	-	1,524	-	-	-	-	**1,524**
Balances with CBK								
Non-interest bearing		51,884	-	-	-	-	-	**51,884**
Placements and balances with banks								
Interest bearing	*Fixed*		-	-	-	6,325	-	**6,325**
Investment securities								
Interest bearing	*Fixed*		-	3,609	213	331	50,772	**54,925**
Loans to customers								
Interest bearing	*Fixed*		8,344	15,323	19,126	41,867	163,845	**248,505**
Interest bearing			-	174	-	5,309	18,201	**23,684**
Other financial assets								
Non-interest bearing		398	-	-	-	-	-	**398**
Total		**73,855**	**9,868**	**19,106**	**19,339**	**53,832**	**232,818**	**408,818**
Liabilities								
Deposits from customers								
Interest bearing	*Fixed*	-	36,281	10,129	20,430	76,061	31,721	**174,622**
Non-interest bearing		177,683	-	-	-	-	-	**177,683**
Due to Banks								
Interest bearing			-	-	-	-	-	**-**
Non-interest bearing			1,169	-	-	-	-	**1,169**
Subordinated debt								
Interest bearing	*Fixed*		-	2	-	-	500	**502**
Borrowings								
Interest bearing	*Variable*		-		-	-	4,873	**4,873**
Other liabilities								
Non-interest bearing		5,544	-	-	-	-	-	**5,544**
Total		**183,227**	**37,450**	**10,131**	**20,430**	**76,061**	**37,094**	**364,393**
Gap		**(109,372)**	**(27,582)**	**8,975**	**(1,091)**	**(22,229)**	**195,724**	**44,425**
Cumulative gap		**(109,372)**	**(136,954)**	**(127,979)**	**(129,070)**	**(151,299)**	**44,425**	**-**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk (continued)

26.3.2 Exposure to currency risk

Currency risk is the risk of potential losses from open position in foreign currencies due to fluctuations in exchange rates. The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term balances. The Bank manages and monitors currency risk against the limits set in its risk policy and in CBK regulation on Foreign Exchange Risk.
Exposure to currency risk is discussed and reported on monthly basis to liquidity and market risk committee. The foreign currencies the Bank deals with, are predominantly United States Dollars (USD), Swiss Franc (CHF) and Great Britain Pounds (GBP). The rates used for translation as at 31 December are as follows:

	2023	2022
Currency	**EUR**	**EUR**
1 USD	0.9050	0.9376
1 CHF	1.0799	1.0155
1 GBP	1.1507	1.1275

An analysis of the Bank's sensitivity to an increase or decrease in foreign currency rates is as follows:

	USD		CHF		GBP	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Sensitivity rates		5%		5%		5%
Profit or loss						
+5% of Euro	(14,46)	(18.82)	(9.05)	(14.54)	1,73	0.08
- 5% of Euro	14,46	18.82	9.05	14.54	(1,73)	(0.08)

The Bank's exposure to foreign currency risk is as follows:

31 December 2023	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Financial assets					
Cash on hand and at banks	26,211	677	108	35	**27,031**
Balances with CBK	54,239	-	-	-	**54,239**
Financial assets at fair value through OCI	61,184	-	-	-	**61,184**
Placements and balances with banks	8,555	-	2,155	-	**10,710**
Loans and advances to customers	325,128	-	-	-	**325,128**
Other financial assets	395	-	-	-	**395**
Total financial assets	**475,712**	**677**	**2,263**	**35**	**478,687**
Financial liabilities					
Due to customers	413,244	965	2,443	-	**416,652**
Due to Banks	75	-	1	-	**76**
Subordinated debt	502	-	-	-	**502**
Borrowings	7,261	-	-	-	**7,261**
Other liabilities	4,319	-	-	-	**4,523**
Total financial liabilities	**425,401**	**965**	**2,444**	**-**	**428,810**
Net foreign currency position	**50,311**	**(288)**	**(181)**	**35**	**49,877**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk (continued)

26.3.2 Exposure to currency risk (continued)

31 December 2022	EUR	USD	CHF	GBP	Total
Financial assets					
Cash on hand and at banks	22,062	660	373	2	**23,097**
Balances with CBK	51,884	-	-	-	**51,884**
Financial assets at fair value through OCI	54,925	-	-	-	**54,925**
Placements and balances with banks	4,304	-	2,021	-	**6,325**
Loans and advances to customers	272,189	-	-	-	**272,189**
Other financial assets	398	-	-	-	**398**
Total financial assets	**405,762**	**660**	**2,394**	**2**	**408,818**
Financial Liabilities					
Due to customers	348,583	1,036	2,686	-	**352,305**
Due to Banks	1,169	-		-	**1,169**
Subordinated debt	502	-	-	-	**502**
Borrowings	4,873	-	-	-	**4,873**
Other liabilities	5,544	-	-	-	**5,544**
Total financial liabilities	**360,671**	**1,036**	**2,686**	**-**	**364,393**
Net foreign currency position	**45,091**	**(376)**	**(292)**	**2**	**44,425**

26.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its obligations as they come due and to meet any unexpected demands for funds by its depositors or other creditors. Moreover, liquidity risk also includes the risk that the Bank will be unable to fund the growth of assets.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. For this purpose, on daily basis the Bank monitors its liquidity position and market conditions. Moreover, continuously assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

In order to ensure an effective management of liquidity risk, and ensure that no liquidity shortfalls occur, the Bank keeps its deposit base diversified. As such, the Bank aims to raise funds using a broad range of instruments such as customers' deposits, or funding from IFIs which will ensure that funding base remains stable.

In addition to daily reporting, the Bank monitors liquidity risk on monthly basis also. This monitoring includes the liquidity position under normal circumstances and also under stress tests. The results are discussed in Liquidity Risk Management Committee ("LRMC").

Furthermore, the Bank has also a liquidity contingency plan which enables the effective management of liquidity in case of unexpected circumstances.

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.4 Liquidity risk (continued)

26.4.1 Management of liquidity risk

The Bank measures liquidity risk using liquidity gap analysis which represents the residual maturities of financial assets and liabilities. The residual maturity is the period between the contractual due date of the asset/ liability and the balance sheet date.

During the year 2023, the Bank has implemented two new regulations related to the liquidity risk management field, which entered into the force on January 1st 2023: Regulation on the liquidity coverage ratio (LCR) and regulation on the net stable funding ratio (NSFR). Also, the Bank has implemented the new requirements from the update of the existing regulation on the Bank liquidity risk management, which entered into the force on September 15th 2023.

The following tables shows the undiscounted cash flows of the Bank's financial liabilities and unused loan commitments and guarantees on the basis of their earliest possible remaining contractual maturity. The Bank's expected cash flows from these instruments vary significantly from this analysis. For example, demand accounts are expected to maintain a stable or increasing balance.

31 December 2023	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial assets						
Cash on hand and at banks	27,031	-	-	-	-	**27,031**
Balances with CBK	54,239	-	-	-	-	**54,239**
Placements and balances with banks	1,498	-	-	9,212	-	**10,710**
Loans and advances to customers	10,220	20,464	22,040	43,800	228,604	**325,128**
Financial assets at fair value through OCI	5,046	50	50	254	55,784	**61,184**
Other financial assets	395	-	-	-	-	**395**
Total	**98,429**	**20,514**	**22,090**	**53,266**	**284,388**	**478,687**
Financial liabilities						
Due to customers	238,343	10,196	18,593	102,685	46,835	**416,652**
Due to banks	76	-	-	-	-	**76**
Subordinated debt	-	2	-	-	500	**502**
Borrowings	-	-	-	-	7,261	**7,261**
Other liabilities	4,319	-	-	-	-	**4,319**
Guarantees issued	1,523					**1,523**
Unused credit commitments	13,065					**13,065**
Total	**257,326**	**10,198**	**18,593**	**102,685**	**54,596**	**443,398**
Liquidity gap	**(158,897)**	**10,316**	**3,497**	**(49,419)**	**229,792**	**35,289**

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.4 Liquidity risk (continued)

26.4.1 Management of liquidity risk (continued)

31 December 2022	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial assets						
Cash on hand and at banks	23,097	-	-	-	-	**23,097**
Balances with CBK	51,884	-	-	-	-	**51,884**
Placements and balances with banks	-	-	-	6,325	-	**6,325**
Loans and advances to customers	8,345	15,324	19,136	41,918	187,466	**272,189**
Available-for-sale financial assets	-	3,609	213	331	50,772	**54,925**
Other financial assets	398	-	-	-	-	**398**
Total	**83,724**	**18,933**	**19,349**	**48,574**	**238,238**	**408,818**
Financial liabilities						
Due to customers	213,964	10,129	20,430	76,061	31,721	**352,305**
Due to banks	1,169-		-	-	-	**1,169**
Subordinated debt	-	2	-	-	500	**502**
Borrowings	-	-	-	-	4,873	**4,873**
Other liabilities	5,544	-	-	-	-	**5,544**
Guarantees issued-restated	1,435					**1,435**
Unused credit commitments-restated	8,538					**8,538**
Total	**230,650**	**10,131**	**20,430**	**76,061**	**37,094**	**374,366**
Liquidity gap	**(146,926)**	**8,802**	**(1,081)**	**(27,487)**	**201,144**	**34,452**

26.5 Operational risk

In line with the CBK regulation on operational risk management, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. This definition includes legal risk, but excludes strategic and reputational risk. In order to ensure effective management of operational risk the Bank has implemented an operational risk framework which includes policies and procedures, techniques and tools for identifying, assessing, mitigating/ controlling and monitoring operational risk.

In order to improve and increase the effectiveness of internal controls in bank's processes and record all operational risk losses, the Bank has established a "loss event database" where all events that cause operational losses or potential risks that may cause losses are registered. Limits and reporting lines of these losses are determined in operational risk management policy. Furthermore, operational risk procedure describes in detail the steps that the Bank undertakes from collected information on operational risk loss event database.

This database is considered to be the best source of information for the development of models for measuring bank's exposure to operational risk as it offers information on the causes of loss. Furthermore, through the information gathered from this database corrective or preventive measures are set in order to mitigate/ control this risk.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.5 Operational risk (continued)

Yearly assessment for different processes in the Bank is part of bank's operational risk management framework. Through this assessment the Bank collects useful information for determining bank's operational risk profile and assesses the risks the Bank is exposed to, including the degree of control implementation. This enables the improvement of control processes through different measures, thus reducing the impact of losses from operational risk.

Effective management of operational risk means knowing bank's position and risk profile. Therefore, for this purpose, the Bank is using Key Risk Indicators (KRIs) to monitor drivers of exposures associated with key risks. These indicators are monitored on regular (monthly/quarterly) basis in order to facilitate operational risk management by providing early warning signals for the changes that may be indicative of risk concerns.

In establishing an effective management of operational risk, the Bank has undertaken different activities related to increasing risk awareness mainly through trainings, which are provided for all bank staff on an annual basis. These trainings aim to enhance the knowledge regarding operational risk management through discussion of different scenarios on previous operational risk events. Furthermore, the trainings address the channels through which operational risk events are to be monitored and reported.

In addition, the Bank has implemented a process for ensuring that changes in products, services or processes (existing or new) go through risk review and approval. This will ensure that the operational risk that comes from processes, products or new services in the Bank is monitored and dealt with promptly.

The Bank calculates the capital charge for operational risk using the Basic Indicator Approach (BIA) as defined by the Central Bank regulation on Operational risk management.

26.6 Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The equity structure of the Bank comprises share capital, reserves and retained earnings. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets, expressed as a percentage.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.6 Capital risk management (continued)

Regulatory capital (continued)

In regard to capital, it is required that the Bank keeps a capital conservation buffer of 2.5% in relation to Risk Weighted Assets (RWA).

Total regulatory capital of the Bank consists of the sum of the following elements: Tier 1 Capital (Common Equity Tier 1 (CET1) and additional Tier 1) and Tier 2 Capital. The minimum required Capital Adequacy Ratios are as follows:

- Common Equity Tier 1 (CET1) must be at least 4.9% of risk-weighted assets at all times.
- Tier 1 Capital must be at least 9.0% of risk-weighted assets at all times including capital conservation buffer.
- Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 12.0% of risk-weighted assets at all times.

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of national risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them.

The main changes applied in the new regulation for this part are risk weighted exposure – this exposure is required to be calculated for: credit risk, market risk and operational risk.

In terms of risk weighted exposure for credit risk the following changes were applied: 15 exposure classes were introduced, the risk weight applied for credit risk exposures secured by Kosovo Credit Guarantee Fund (KCGF) is 0%, and new criteria were added for classification of an exposure as retail exposure, short- and long-term exposure, etc.

In terms of risk weighted exposure for market risk, the CBK requires to calculate capital for this type of risk. However, since bank’s exposure to this risk is rather limited only in currency risk and the net position is below the limit of 2% of total regulatory capital as set by the CBK, then the Bank does not allocate capital for this risk.

For the purpose of calculating risk-weighted exposure amounts, the Bank allocates each exposure in the following classes which carry weights from 0% - 150% RWA depending on the set criteria for each exposure class:

- exposures to central governments or central banks;
- exposures to regional governments or local authorities;
- exposures to public sector entities;
- exposures to multilateral development banks;
- exposures to international organizations;
- exposures to institutions;
- exposures to corporates;
- retail exposures;
- exposures secured by mortgages on immovable property;
- exposures in default;
- exposures associated with particularly high risk;
- exposures to institutions and corporates with a short-term credit assessment;
- exposures in the form of investment funds;
- equity exposures;
- other items

(Amounts in thousands of EUR, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.6 Capital risk management (continued)

Risk-Weighted Assets (RWAs)(continued)

In order to ensure that the Bank stays well above the minimum requirements for capital adequacy ratio, the Bank has approved an internal capital limit which is greater than the minimum set by the CBK. This limit serves as an early warning indicator for the Bank and helps us ensure better capital management.

	2023	**2022**
Total risk weighted assets	314,792	254,144
Total risk weighted off balance exposures	778	658
Total risk weighted assets for operational risk	23,422	21,270
Total	**338,992**	**276,072**
Regulatory capital (total capital)	54,530	48,265
Capital adequacy ratio (total capital)	**16.09%**	**17.48%**

In order to ensure capital adequacy, the Bank has built models that determine the additional capital required under Pillar II to cover the risks to which the Bank is exposed as required by the CBK Regulation for the Internal Capital Adequacy Assessment Process (ICAAP).

For this purpose, the Bank has allocated additional capital to also cover the other risks not covered under Pillar I in order to ensure that the Bank is covered at all times.

The assessment of capital adequacy under ICAAP regulation takes into account the quantitative and qualitative assessment of the risks considered to be material for the Bank. The risks covered under Pillar 2 beside credit risk, market and operational risk, include also: interest rate risk, concentration risk, liquidity risk and market liquidity risk. As for other risks, the methodology also considers the allocation of reserves for other significant risks such as, reputational risk, profitability risk and strategic risk as well as a qualitative assessment for non-significant risks such as counterparty risk, model risk, capital risk and compliance risk.

(Amounts in thousands of EUR, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions. Ultimate controlling parties are shareholders listed in the Note 24 share capital and reserves.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

A summary of related party balances at the end of year are as follows:

		31-Dec-23		31-Dec-22
Assets: *Loans outstanding at end of year with shareholders and key management*	**Stage**		**Stage**	
Shareholders	Stage 1	1,350	Stage 1	1,028
	Stage 2	23	Stage 2	27
	Stage 3	127	Stage 3	127
	Total	**1,500**	**Total**	1,182
Management	Stage 1	478	Stage 1	190
	Stage 2	-	Stage 1	-
	Stage 3	-	Stage 1	-
	Total	**478**	**Total**	190
Total		**1,978**		1,372
Unused commitments	Stage 1	1165	Stage 1	886
Guarantees and letters of credit with shareholders	Stage 1	165	Stage 1	165

Loans to related parties are given at commercial terms.

	2023	2022
Loans to shareholders, gross	1,500	1,182
Allowance for impairment	(130)	(128)
Total Loans to shareholders, net	**1,370**	**1,054**
Cash collateral	(50)	(560)
Net exposure to shareholders	**1,320**	**494**

	2023	2022
Loans to management and BoD members, gross	478	190
Allowance for impairment	(4)	(1)
Loans to management, net	**474**	**189**
Cash collateral	(44)	(58)
Net exposure to management	**430**	**131**

(Amounts in thousands of EUR, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Liabilities:	31-Dec-2023	31-Dec-2022
Customer accounts		
Shareholders and Management	5,794	5,240
Total	**5,794**	**5,240**
Borrowing from EBRD	7,261	4,873
Total	**13,055**	**10,113**

Following are the transactions made with related parties during the year:

	2023	2022
Income		
Interest income from loans and advances	37	28
Total interest income	**37**	**28**
Expenses		
Interest expenses for subordinated debt from EBRD	196	100
Key management compensation	445	500
Board of director's compensation	93	91
Total expenses	**734**	**691**

28. SUBSEQUENT EVENTS

No material events or transactions have occurred since 31 December 2023 which require corrections or disclosure in these financial statements.